



## Strategic Business Plan

2004-09 FY



California Department of Veterans Affairs  
Division of Farm & Home Purchases



## TABLE OF CONTENTS – Strategic Business Plan

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	Page No.
<b>BASIC INFORMATION . . . . .</b>	<b>1</b>
<b>INTRODUCTION . . . . .</b>	<b>2</b>
<b>EXECUTIVE SUMMARY . . . . .</b>	<b>4</b>
<b>SECTION #1: Strategic Plan . . . . .</b>	<b>8</b>
<i>Principles</i>	8
<i>Accomplishments</i>	9
<i>CalVet Home Loan Program Overview</i>	11
<i>Internal/External Assessment</i>	26
<i>Goals, Objectives, Tasks and Metrics</i>	31
<i>Resources</i>	39
<b>SECTION #2: Marketing Analysis . . . . .</b>	<b>44</b>
<i>Customer Base</i>	44
<i>Marketing Objectives</i>	47
<b>SECTION #3: Financial/Business Plan: . . . . .</b>	<b>48</b>
<i>Program Status</i>	48
<i>Financing Plan</i>	54
<i>Newly Effective and Pending Legislation</i>	55
<b>SECTION #4: Continuity Summary. . . . .</b>	<b>58</b>
<b>SECTION #5: APPENDIX LIST . . . . .</b>	<b>61</b>

**CAL-VET HOME LOAN PROGRAM**  
**California Department of Veterans Affairs**  
**Division of Farm and Home Purchases**

**STRATEGIC BUSINESS PLAN – Basic Information**

<b>Agency Name:</b>	<b>California Department of Veterans Affairs</b>
<b>Program Name:</b>	<b>Cal-Vet Home Loans</b>
<b>Agency Secretary, Executive and Administrative Staff:</b>	Thomas Johnson, Secretary Major General Roger Brautigan, Undersecretary Sheryl Schmidt, Deputy Secretary of Operations and Women Veterans Joseph Maguire, Deputy Secretary of Legal Affairs John M. Hanretty, Chief, Administrative Services Division Debra Lehr, Chief, Farm and Home Purchases Division Weijian Ni, Chief, Bond Finance Division Jerry Beaver, Loan Processing Operations Manager George Flores, Loan Servicing Operations Manager Recco Finch, Statewide Field Operations Manager
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<b>Quantitative Consultant:</b>	cfX Incorporated
<b>Trustee:</b>	California State Treasurer's Office

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# INTRODUCTION

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The Strategic Business Plan (the Plan) is designed to set forth the challenges facing the Cal-Vet Home Loan Program (the Program), and the steps the California Department of Veterans Affairs (CDVA) will take to manage issues over the next five years. This Plan will be a resource that will enhance management's ability to address veterans' needs and issues and make Program decisions.

There are five sections to the Plan:

- **Section 1: Strategic Plan**, which discusses the Program's core principles, background, organization, internal/external assessment, goals and objectives, and resources. While defining the mission, goals and performance measures, the needs and expectations of customers and stakeholders were considered.
- **Section 2: Marketing Analysis**, which discusses marketing objectives, customer demographics, customer outreach, marketing budget, and refers the reader to the Cal-Vet Marketing Plan for further details.
- **Section 3: Financial (Business) Plan**, which discusses financial operations, goals and status
- **Section 4: Business Continuity**, which summarizes the Program's "Cal-Vet Business Continuity Plan", describing the way in which the Program will operate in the event the present locations or systems become unavailable, and actions needed to insure continuity of operations.
- **Section 5: Appendices**, which clarify and/or support information presented in the Plan.

The Strategic Business Plan will map a path between the present and the Department's vision of the future. The purpose of the Strategic Business Plan is to:

- Define the purpose of the organization.
- Prepare for contingencies that could prevent the Department from meeting Cal-Vet Home Loan Program goals.
- Prepare a framework for the Department's orderly change and progress.
- Prepare a strategy for the allocation of resources in a manner that will allow the Program to meet its priorities and goals in light of critical program challenges and an unstable political and economic environment.
- Establish realistic goals and objectives consistent with the Department and Program's mission in a defined timeframe.
- Communicate goals and objectives to Agency management and staff, as well as program stakeholders.
- Provide a basis from which outcomes and progress can be measured.

Objectives of the plan were formulated to increase lendable proceeds by reducing costs and maximizing investment opportunities given limited resources, and to play a part in stimulating California's real estate industry and economy.

Key assumptions identified as a basis for the plans include:

- Federal Legislation to remove restrictions on use of QVMB funds will not pass.
- The size of the veteran population will decrease from 24.2 million to approximately 16.2 million between the years 2000 and 2020, the percentage of veterans in California will continue to be approximately 10%, and the Cal-Vet market share will be equal to VA (currently 8%).
- No legislation adverse to the Program will pass, and funds will not be diverted by political entities for uses outside the Program.
- Interest rates in the conventional loan market will continue to rise through the 2004-05 FY.

This Plan contains components specified in the Department of Finance Strategic Planning Guidelines (revised May 1998), as well as embraces the spirit of the California Performance Review. The Plan will be reviewed and updated annually (*it is drafted as a somewhat high-level plan, which will later be translated into a more specific operating plan*). The Plan takes both short and long-range approaches to planning, and regular reviews and updates will be used to check progress, reassess the validity of the plan, respond to changing circumstances and take advantage of emerging opportunities.

Department management is committed to planning for the future of the Program, and the intent is to maintain a program that will be serving veterans now and into the foreseeable future. The Strategic Plan will be used to stimulate change, rather than simply to react to it, and the plan will be communicated to all members of the organization.



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## EXECUTIVE SUMMARY

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The Cal-Vet Home Loan Program has faced a number of challenges over the past five years. In response to those challenges, the Department will restructure the Program into a more cost-effective and efficient operation that manages its assets to maximize resources and investment yield. Primary challenges include:

- Diminishing pool of veterans eligible for Qualified Veteran Mortgage Bond (QVMB) funding due to federal restrictions.
- Reduction in fund equity caused by low conventional loan rates resulting in high prepayment activity and a negative spread between the cost of debt and investment yield. Through program restructuring to reduce costs of operations and opportunities that maximize investments, the Division will mitigate the gradual reduction in fund equity.
- High cost of housing and decreasing affordability in certain areas of the state.
- A California economy that is less than robust, causing a drop in the State's bond rating and subsequent drop in Cal-Vet's General Obligation bond rating. However, Fitch affirmed and removed California from rating watch negative in August 2004. The rating watch removal affected California BBB rated General Obligation Bonds, and A- rated \$1.4 billion General Obligation veterans bonds.

This Plan will address the manner in which the Program will meet its challenges, and also discusses the Program's mission, principles, internal/external assessment, goals, strategies, resources and marketing objectives/activities.

The Program has been operating in a rapidly changing environment, and will continue to do so through the 2005-06 fiscal year as we restructure the organization and move to an operation that manages its loan activity according to its funding resources. As changes occur, the Program will continue to adapt to its environment. Program management is committed to addressing the issues and challenges, and identifying viable solutions.

The following are Program goals for the 2004-09 fiscal years, based on the assumption that federal legislation removing QVMB restrictions will not pass this year:

- **Strategic Goal #1: Maximize QVMB funding over the next 3 years.**

Under current laws affecting the use of QVMB funds, veterans must have served at least one day of active service prior to 1977, and must apply for a loan within 30 years of release from active duty. By 2007, most veterans will no longer qualify for QVMB funding (although a small pool of veterans will remain eligible through 2037), and there will be a high demand for funding through our limited supply of unrestricted funds. Over the next three years, we will make an effort to reach as many veterans as possible who remain eligible for QVMB funds through a concentrated marketing effort and

interest rate incentive, while working with the four other States having veterans housing programs to change federal legislation to remove restrictions on the use of QVMB funds. Efforts to maximize use of QMB funds for first time homebuyers will also be a priority to the extent that these funds are available. Additional allotments of QMB will be requested from the Debt Allocation Committee in 2004.

If federal legislation does not pass, the Program will evolve from a demand based program where funds are available to any veteran wishing to apply in a given year, to a supply based program that operates according to funding projections, reduces its cost of operations, increases its efficiency, and continues to provide a benefit to veterans at no cost to the California taxpayers with unrestricted funds as the primary source of funding.<sup>1</sup>

- **Strategic Goal #2: Restructure operations to accommodate a program funded primarily through Unrestricted funds.**

As the pool of veterans eligible for QVMB funds decreases, we will rely heavily on unrestricted funds. This goal will be achieved through strategies that allow for studying and reengineering operations based on outcomes rather than processes, using financing tactics to maximize investments to reduce negative carry (continue activity to refund/redeem bonds to reduce negative carry, while using other techniques to replace funds used to redeem bonds), zero-basing the Program's budget to determine the "right size" of the budget, and reducing other costs of operations.

The operating budget (as per the Program Operating Procedures) will be reduced from \$18 million at the end of fiscal year 2003-04, to \$16 million by the end of the 2004-05 fiscal year (FY), \$15 million by the end of the 2005-06 FY, then target a budget of .50 basis points of the portfolio balance thereafter (subject to benchmarking studies/restructuring to determine if this is an appropriate ratio). Overhead in 2003-04 will be reduced through closure of two field offices in the first half of the 2004-05 fiscal year and implementing other efficiency measures throughout the Department. Future office closures could occur depending on loan demand, funding resources, demographics, and production. The Program will promote on-line applications and partnerships with mortgage brokers to realize efficiencies in originating new loans.

- **Strategic Goal #3: Improve Cal-Vet Home Loan Program Processes**

This goal will be achieved through:

- strategies to identify efficiencies,
- evaluation of outcome costs,
- measuring/benchmarking performance effectively, and
- planning for business continuity

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<sup>1</sup> If federal law changes to expand QVMB fund usage to post-1977 veterans, we can continue to have a strong QVMB program available.

- **Strategic Goal #4: Deliver excellent customer service and improve customer outreach**

This goal will be achieved through a comprehensive marketing plan, identifying customers' needs, and maintaining a trained and dedicated staff. The Department will address the issue of attrition in the workforce over the next five years and take steps to develop staff and find alternative ways to do business.

The Program's Strategic Business Plan outlines the Program's goals and objectives, and defines the action plans needed to accomplish the goals. Metrics for measurement of performance are identified, and task responsibility and timeframes are outlined. The Strategic Business Plan also sets forth the *mission* and *vision* that guides the Program, and a set of *values* that promotes teamwork to accomplish the goals.

The organization will be restructured and further centralized to reduce overhead, marketing will be focused and targeted towards specific groups of veterans according to funding sources, and new ways of doing business will be explored, such as the concept of remarketing loans, blending non-taxable with taxable bond funds, using a lender network to originate loans, and enhancing the current technology for customer access and loan processing.

If the Program's funding situation should change and QVMB funding opens up to current war veterans, the Program will still work towards its goals to become the most efficient and cost-effective organization possible. However, the Program may then have the latitude to introduce new and creative programs to assist California's veterans, refund higher cost debt, or be able to open up the unrestricted funding pool to other eligible veterans, such as peace-time veterans and certain National Guard veterans who currently only qualify for Qualified Mortgage Bond (QMB) funding.

The Program has experienced many changes over the years while improving its products and services to meet the needs of California's veterans, and will continue to do so into the future. California has used the Cal-Vet Home Loan Program to show its gratitude to veterans for over 80 years, and the veterans of tomorrow deserve nothing less.

## CONCLUSION

Department management is committed to seeing the Program continue operation into the future, in spite of the many and varied challenges the Program is facing. There are many opportunities for the Program to reduce costs and maximize revenues, and to look to technology and the industry to assist with loan originations and servicing.

Division management understands the extent of the challenges facing the Program, has identified goals that can be met and measured, and will continue to work with the Bond Finance Unit and quantitative consultant to determine ways to keep the Program in operation and financially viable into the future.



The Program will require restructuring to achieve the cost savings anticipated, but through centralization and efficiency measures to reduce overhead, partnerships with real estate professionals, and careful monitoring of the Program's funding supply and financial issues, veterans will continue to receive their Cal-Vet benefits.

Steps have already begun to study the program, identify efficiencies, zero base the budget and to measure performance.



## SECTION 1: STRATEGIC PLAN

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### **PRINCIPLES**

The following are the principles under which the Program operates:

#### ***Mission Statement:***

*“The Mission of the Cal-Vet Home Loan Program is to provide qualified veterans with the assistance needed to acquire homes at no cost to California’s taxpayers.”*

#### ***Vision Statement:***

*“The Cal-Vet Home Loan Program will continue to provide earned loan benefits to veterans in a fiscally responsible manner now and into the future.”*

#### ***Core Values:***

The Program recognizes that it only exists to serve California’s veterans. As a Program, we value:

- Putting veterans first
- Quality customer service
- Achieving and maintaining the highest ethical standards
- Respect, reliability and responsiveness
- Quality and continuous improvement
- Teamwork, communications and cooperation
- Fiscal accountability
- Fostering partnerships with our stakeholders
- Maintaining a dedicated workforce of skilled staff who believe in our mission

## **ACCOMPLISHMENTS:**

The Department's commitment to improving services and programs is demonstrated by its accomplishments. Since the 1998-99 Business Plan, the following has been accomplished.

- An interest rate setting methodology was recommended by the Department and approved by the California Veterans Board and Department of Finance in 2000 that allows the Program to more fully respond to the market and adjust rates quickly.
- The centralization of loan processing was completed, which resulted in reduced processing time, standardized underwriting, and more effective use of space and personnel. Field Office staff remain available to assist during periods of high loan volume, however.
- A program was developed and implemented to train and certify mortgage brokers to optimize their participation in loan origination, and to enhance the Program's presence in the marketplace.
- Implementation of a new mortgage finance system was completed (first installed in July 1999), which provides expanded data capture, retrieval and reporting capabilities. On December 4, 2002, the MITAS system won a "Best of California" award from the Center for Digital Government.
- Loan processing time for existing home purchases has been reduced from an average of 64 days at the beginning of the 2000-01 fiscal year to 30 days at the end of the 2002-03 fiscal year.
- Purchase and installation of a new remittance processing system resulted in a significant improvement in the Program's ability to process monthly Cal-Vet loan payments. This resulted in accelerated deposits and maximized interest income.
- Loan Servicing Operations has reorganized to accommodate 2003 and 2004 staffing reductions and consolidate functions to optimize resources.
- Operations Manual Chapters for loan processing functions have been updated.
- An Electronic Funds Transfer (EFT) program was implemented in March 2002 to improve convenience for customers as well as reduce costs through technology. Enhancements will continue to be made to the program.
- Cal-Vet's delinquency and foreclosure rates continue to be significantly lower than VA and FHA's rates.

- Real Estate Owned (repossessed properties) are no longer a drain on the fund. Since 2001, a gain has been realized on REO sales.
- The Life and Disability Program was brought into actuarial balance and is no longer a drain on the Program. After a thorough procurement process, a new carrier for the life and disability insurance program was procured. The new policy began in February 2003, and provides improvements in benefits at no additional cost for most options.
- CDVA's Law Division assumed responsibility for Fire and Hazard issues, rather than paying outside counsel, for a savings of approximately \$250,000 per year.
- A review of FEMA policy placements resulted in a return of \$65,000 to the Disaster Indemnity Fund through refunds.
- Although the State of California's General Obligation Bond ratings have dropped to BBB level, the Program's ratings have remained higher ("A" or better for G.O. and Revenue).
- The Program was the subject of several external reviews by the Bureau of State Audits. The Program completed substantially all of the recommendations made by the Bureau in its report dated May 25, 2000, and subsequent report regarding Life and Disability Insurance of March 28, 2001.
- The Department contracted with a consultant to provide leadership training (Baldrige Training) to its management team in February 2002 on customer focus, staff focus, strategic planning, and measuring performance.
- Premium rates on Disaster Indemnity coverage were reduced from \$.90 to \$.80 per thousand of coverage in the spring of 2002, due to the strength of the indemnity fund. This program provides the best coverage, at the lowest premiums, available in the market.
- Cal-Vet has put the veteran "on-line" rather than "in-line". Veterans now have the ability to apply for loans, check the status of loan processing, obtain general program information, download forms, etc., through the convenience of the Internet.
- The Interactive Voice Response System (a 24/7 automated telephone system) was implemented to allow for telephone access to account information and loan application status information.
- Loan eligibility was extended to certain members of the California National Guard and reserve components of the U.S. Armed Forces, effective January 1, 2003.
- Eligibility for Cal-Vet Home Improvement loans was expanded in 2003 to eligible veterans who do not have an active basic Cal-Vet Loan.

- Eligibility for Home Improvement Loans was further expanded in 2004 when permissive language was added that would allow Home Improvement Loans to be made behind other financing (this program has not yet been implemented).
- Legislation effective January 1, 2003 was passed to allow Cal-Vet maximum loan amounts to follow the FannieMae limits, which are reviewed annually. This permits limits to change without legislation.
- Use of the competitive bid process to renew our insurance broker contract resulted in a savings of approximately \$250,000 over the next three years.
- Effective January 1, 2004, maximum loan limits for mobile homes in parks was increased from \$70,000 to \$125,000, thereby allowing veterans a greater opportunity to purchase affordable housing. Maximum farm limits were increased to 150% of the current Cal-Vet Home Loan.
- Effective in 2004, the Department will no longer use the janitorial services provided through the Department of General Services (DGS), and will contract with a non-profit agency at a savings of approximately \$300,000 per year.
- The Department is in the process of assuming the administration of its parking lots from DGS. This will result in a savings to the Department of approximately \$100,000 per year.

The Department is set to embark on a complete review of operations, which should result in many more “achievements” over the next five years.

## **CAL-VET HOME LOAN PROGRAM OVERVIEW**

### ***Background***

The Department began making low interest rate farm and home loans in the State of California following the enactment by the California Legislature of the Veterans Farm and Home Purchase Act of 1921. In 1943, the Legislature enacted the Veterans Farm and Home Purchase Act of 1943, which modified the Program to meet new needs of veterans. The 1943 Act was superseded by the Veterans Farm and Home Purchase Act of 1974, which again modified the Program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principal fund utilized by the Program.

Since inception, the Program has assisted over 415,000 veterans to purchase farms and homes throughout the State as a benefit to recognize their personal sacrifice and service to state and country. Funds used to finance the purchases are through the sale of Revenue Bonds and Veterans General Obligation Bonds, combined with surplus revenues under the Program not needed at any given time to meet debt service (bond retirement schedules) and operating costs.

## ***Eligibility and Funding***

A veteran must meet qualifications established under State law in the Military and Veterans Code (Section 980) in order to be eligible for the Program. These qualifications are subject to change by the Legislature. However, in order to determine which Department moneys can be used to finance Contracts of Purchase, the Department must also take into account the requirements of Federal law set forth in the Federal Tax Code, which limits the pool of veterans eligible for loans from certain sources. There are three types of loan funds available for the Program<sup>2</sup>:

- “Unrestricted Moneys” (URM), which are derived from certain moneys in the 1943 Fund, certain proceeds of pre-Ullman<sup>3</sup> Revenue Bonds and Veterans G.O. Bonds, and certain future issues of taxable bonds, if any. This source is used to finance loans for Earlier War Veterans, Vietnam Era Veterans, and Recent War Veterans who do not qualify for other funding sources. It is important to understand that these funds cannot be used for any purpose; they must be used to make loans to veterans and ultimately to satisfy outstanding bond debt.
- “Qualified Veterans Mortgage Bond Proceeds” (QVMB), which are derived from proceeds of Veterans General Obligation Bonds. This source is used to finance loans for veterans who served on active duty prior to January 1, 1977, who qualify under provisions of the Military and Veterans Code as a “wartime era” veteran, and who were released from active duty less than 30 years from loan application. Therefore, these funds can only be used to finance loans for eligible Earlier War Veterans and Vietnam Era Veterans whose service meets the time limitations.
- “Qualified Mortgage Bond Proceeds” (QMB), which are derived from Revenue Bond proceeds. This source is used to finance loans for any veteran who qualifies under the Veterans Code (including peace-time veterans) and meets certain requirements (Federal limitations) in regards to family income, purchase price, and previous home ownership.

As of June 30, 2004, loan funds were available totaling \$423,863,000<sup>4</sup>: \$375,830,000 in Unrestricted Funds; \$20,598,000 in QVMB (plus another \$605,585,000 authorized but not issued); and \$27,435,000 in QMB's. Loan originations for FY 2002-03 show 69% of loans funded with Unrestricted funds, 24% with QVMB, and 7% with QMB funds. QVMB fundings are up 44% over the previous fiscal year while UR fundings are up 177% and QMB fundings are up 60% for FY 2003/04. From a planning perspective, we must focus marketing efforts on Vietnam era (pre-1977) veterans to continue increasing QVMB usage in order to maximize our funding options. The slight increase in QVMB fundings over the previous year indicates that the target group (Vietnam era veterans) can be attracted to the program through rates at least 1 - 1.5% below market.

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<sup>2</sup> Source of fund type descriptions is Department's Official Statement

<sup>3</sup> “Pre-Ullman” refers to the period prior to enactment of Federal Tax Code programmatic restrictions on the use of proceeds of tax-exempt bonds to finance mortgage loans.

<sup>4</sup> Not all of these funds are available for loans. Some of the funds will be used to prepay bonds and satisfy debt.

A rise in usage of QMB funds for our secondary target group, QMB eligible veterans (first –time homebuyers) has not been seen, even though rates have averaged at least 1% below market, indicating that Iraqi Freedom veterans are not yet in the home buying market, and most likely will not be for another few years.

### ***Products and Services***

The Department finances new and existing single-family homes, farms, condominiums and mobile homes on land owned by the veteran or in rental parks by acquiring property selected by the veteran and reselling the property to the veteran under a land sale contract (Contract of Purchase). Under a Contract of Purchase, the veteran holds an equitable interest, and the Department holds legal title to the property. The Department also provides Home Improvement Loans, Construction Loans and Conditional Commitment (Rehabilitation) Loans. Chart 1 below shows the breakdown of the portfolio by property type as of December 31, 2003.

Property Type	# of Loans	%	Loan Balance	%
Single Family Residence	<b>16,916</b>	<b>84%</b>	<b>\$1,322,445,000</b>	<b>84%</b>
Home Improvement Loans	<b>947</b>	<b>5%</b>	<b>10,427,000</b>	<b>1%</b>
Condominium	<b>777</b>	<b>4%</b>	<b>80,871,000</b>	<b>5%</b>
PUD	<b>293</b>	<b>1%</b>	<b>51,660,000</b>	<b>3%</b>
Mobile Home in Park	<b>437</b>	<b>2%</b>	<b>62,461,000</b>	<b>4%</b>
Construction Loans	<b>313</b>	<b>2%</b>	<b>10,984,000</b>	<b>1%</b>
Mobile Home on Land	<b>360</b>	<b>2%</b>	<b>24,795,000</b>	<b>2%</b>
Rehabilitation Loans	<b>87</b>	<b>&lt; 1%</b>	<b>9,654,000</b>	<b>&lt;1%</b>
Farm Loans	<b>39</b>	<b>&lt; 1%</b>	<b>4,978,000</b>	<b>&lt;1%</b>
<b>TOTAL</b>	<b>20,169</b>		<b>\$1,578,275,000</b>	

*Chart 1: Portfolio breakdown by property type as of December 31, 2003.*

Beginning January 1, 2004, the maximum home loan amount is \$333,700. A farm loan is 150% of the current maximum home loan (currently \$500,550). A mobile home on leased land or in a rental park is \$125,000. A Home Improvement Loan is \$50,000 if funded by Qualified Veterans Mortgage Bonds (QVMB's) or Unrestricted Funds (UR), or \$15,000 if funded through Qualified Mortgage Bonds (QMB's). The maximum loan amount for any home may be increased by \$5,000 for certain solar improvements.

The veteran must meet certain financial requirements, which demonstrate a willingness and ability to repay the loan. The Program's current lending criteria conforms to that of the USDVA, and its procedures are consistent with those established by USDVA for its loan guaranty program.

Cal-Vet is a "full service" lender. Veterans can obtain direct financing through Cal-Vet, as well as loan servicing and certain home protection coverages (Fire and Hazard insurance, Disaster Indemnity coverage for earthquake and flood, and Life and Disability insurance through a policy with an independent vendor, currently Standard Insurance Company).

Subsequent loans are available to any veteran who qualifies under the Veterans Code and the Federal Tax Code so long as any previous loan has been paid-in-full or the veteran lost his interest in the previous loan through divorce or dissolution of marriage.

### ***Administration and Organization***

The Division of Farm and Home Purchases is one of three Divisions of the California Department of Veterans Affairs Agency. The other two Divisions are Veterans Services and the Veterans Homes. Oversight responsibility for the entire Department is through an Agency Secretary.

The Division is the direct cost center of the Program, but the Program includes support from other Department Divisions/Units. Appendix 1-a shows the organizational structure of the Division. The Division Chief, under the oversight of a Deputy Secretary of Operations, heads the Division and is supported by two Supervising Property Agents managing the two primary areas of Division Operations: Loan Processing and Loan Servicing. The Division is directly supported by Bond/Finance, and indirectly supported by other Department Divisions/Units including the CDVA Executive Office, Human Resources, Information Services Division, Accounting Office, Budget Office, the Law Division, and Office of Procurement and Contracting.

Program administration is located in the Veterans Affairs Building at 1227 O Street, Sacramento, California, known as the "Headquarters Office". Headquarters houses the CDVA Executive Staff, Program Administration, Loan Servicing Operations, Loan Processing Operations (other than the field offices), and Program Support Units. The Division also maintains seven District Offices and two Satellite offices throughout the State located in Bakersfield, Concord, Fresno, Redding, Riverside, Sacramento, San Diego, Santa Clara, and Ventura. The primary function of Headquarters Units is administration, loan servicing and centralized loan processing, and the primary function of the statewide Field Offices is loan origination and marketing. However, the Field Offices process construction, rehabilitation and home improvement loans, and provide back-up loan processing functions when necessary during periods of high loan volume. Chart 2 on the following page shows a list of Cal-Vet Offices throughout the State, as of January 1, 2004, and territory served.

### **Division Units – Loan Servicing Operations (LSO)**

Over the past year, the Department put forth much effort in finalizing changes to its operating structure at Headquarters. Division Unit staff and functions were reorganized in a manner that would make Unit management more equitable, reduce costs and provide more rapid and effective service to customers.

The purpose of LSO is to provide effective and efficient service to all Cal-Vet customers. LSO involves contract-servicing functions, such as title changes, property tax payment, insurance, collections, foreclosures and REO sales/maintenance. LSO consists of the following Units whose functions and goals are briefly described (also see Appendix 1-b for an Operations Function Chart).



<b><u>OFFICE</u></b>	<b>ADDRESS</b>	<b>PHONE NUMBER</b>	<b>AREA SERVED (Counties)</b>
Bakersfield District Office	<b>5500 Ming Avenue, Ste. 155 Bakersfield, CA 93309</b>	<b>(661) 833-4720</b>	<b>Inyo, Kern, Mono, Tulare</b>
Fairfield District Office	<b>370 Chadbourne Road, 2nd Floor Fairfield, CA 94534</b>	<b>(707) 436-2240</b>	<b>Alameda, Contra Costa, Lake, Marin, Mendocino, Monterey, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma</b>
Fresno District Office	<b>1752 East Bullard Avenue, Suite 101 Fresno, CA 93710</b>	<b>(559) 440-5132</b>	<b>Fresno, Kings, Madera, Mariposa, Merced, Stanislaus</b>
Redding District Office	<b>930 Executive Way, Suite 125 Redding, CA 96002</b>	<b>(530) 224-4955</b>	<b>Butte, Del Norte, Glenn, Humboldt, Lassen, Modoc, Plumas, Shasta, Sierra, Siskiyou, Tehama, Trinity</b>
Riverside District Office	<b>1770 Iowa Ave., Suite 260 Riverside, CA 92507</b>	<b>(909) 774-0102</b>	<b>South and East portions of Los Angeles County, Riverside (excluding a Southwest portion of Riverside County), San Bernardino</b>
Sacramento District Office	<b>1227 O Street, 4th floor Sacramento, CA 95814</b>	<b>(916) 503-8359</b>	<b>Alpine, Amador, Calaveras, Colusa, El Dorado, Nevada, Placer, Sacramento, San Joaquin, Sutter, Tuolumne, Yolo, Yuba</b>
San Diego District Office	<b>3160 Camino Del Rio South, Room 112 San Diego, CA 92108</b>	<b>(619) 641-5840</b>	<b>Imperial, Orange, Southwest portion of Riverside County, San Diego</b>
Santa Clara Itinerant Service Office			<b>A subsidiary of the Fairfield office where the local CVSO office is housed. Cal-Vet performs itinerant servicing out of the office only.</b>
Ventura Satellite Office	<b>1000 South Hill Road, Suite 112 Ventura, CA 93003</b>	<b>(805) 654-6901</b>	<b>North and West portions of Los Angeles County, San Luis Obispo, Santa Barbara, Ventura</b>

*Chart 2: Cal-Vet Statewide Field Offices*

- **Contract Services Unit:** The purpose of the Contract Services Unit is to provide effective and efficient service to all customers in the areas of escrow analysis, property taxes, deed and demand processing, payoffs, Home Improvement Loans and functions of a highly technical nature. The Unit will also maintain and protect contract files and records using accepted records management practices. The Unit will accomplish its purpose by:
  - Providing excellent customer service and rapid response to customer inquiries.
  - Providing training to staff.
  - Preparing desk procedures for the various functions of the unit.
  - Being knowledgeable about MITAS so account concerns can be addressed professionally.
  - Continuing streamlining efforts and reorganization for efficiency.
  - Processing tax payments promptly and efficiently to reduce penalties paid by the department.
  - Processing annual escrow analysis efficiently and accurately to reduce the number of customer complaints and ensure that customer accounts are correct.
  - Monitoring the phone system and maintaining a service e-mail address.
  - Keeping performance measures in place to determine whether goals are met and if improvements are needed.

One of the primary objectives of the Contract Services Unit has been to reduce tax penalties incurred. This goal is being met, and penalties over the past four years have been decreasing due to portfolio reduction, but also to improved tax processing, as shown on Chart 3 below:

Year	N0.OF PARCELS PAID	\$ AMOUNT PAID	\$ AMOUNT of PENALTIES	% OF TAX PAID IN PENALTIES	INC (+) OR DECR (-)
1999/00	57,974	\$39,556,467.96	\$27,406.10	.07%	
2000/01	64,387	\$47,464,360.43	\$23,262.40	.05%	-.02%
2001/02	57,996	\$47,828,421.71	\$6,729.84	.015%	-.035%
2002/03	48,945	\$40,884,320.94	\$5,463.40	.013%	-.002%

Chart 3: Tax penalties paid for fiscal years 2000 - 2003

- **Foreclosure Unit:** The purpose of the Collection, Foreclosure & REO Unit is to process delinquencies, foreclosures, bankruptcies and repossession sales in a timely fashion in order to reduce operating costs and to minimize losses on repossession sales. In accordance with good business practices, sound loss mitigation strategies, and VA/PMI (RADIANT) requirements, the Unit will also strive to assist veterans whenever possible to keep their homes during periods of temporary hardship. The Unit will accomplish its goals by:

- Identifying and implementing streamlining measures.
- Providing training to staff as required.
- Revising and updating Operations Manual chapters and desk procedures.
- Contacting delinquent accounts at the earliest possible moment to mitigate the delinquency amounts and to assist the veterans' to resolve their payment hardships before the delinquency amount due becomes unmanageable.
- Partnering and maintaining working relationships with the real estate industry for the rapid disposition of REO properties.
- Maintaining statistical information to monitor REO gains, losses and processing times.

The Unit's primary objective is to maintain delinquencies and REO inventory at a level that is below FHA and VA, in order to reduce overall losses through efficient delinquent account and REO processing, maintenance and sales. This meets the Unit's mission by reducing overall overhead, reduces the amount of funds needed to be maintained in a loss reserve (which is then available for lending – see Chart 4 which shows the reserves over the past 6 years), maintains the health of the program and therefore supports our bond ratings, which allows interest rates to be kept at a minimum.

YEAR		LOAN LOSS RESERVES
1998		\$22,005,000
1999		21,263,000
2000		19,676,000
2001		16,715,000
2002		14,135,000
2003		10,040,000
2004		8,540,000

*Chart 4: Loan loss reserve comparison, based on Division/Accounting records.*

Objectives to accomplish this primary goal include:

- Maintain a total delinquency rate that is 3% or lower than FHA's and .5% or lower than USDVA's rates. (See Chart 5.)
- Maintain a canceled contract and repossessed property portfolio that is 1.25% or lower than FHA's and .5% or lower than USDVA's foreclosure in inventory. (See Chart 6.)
- Maintain an average bankruptcy case inventory of .5% or lower of Cal-Vet's total loan portfolio.
- Process cases in foreclosure from time of cancellation of contract to sale of the property under 20 months. Although in many cases, sales can be accomplished in under 12 months, legal action needed in Bankruptcy, Quiet Title, or Unlawful Detainer cases can extend the timeframe considerably, thus skewing the average processing time.
- Obtain the greatest return possible on REO sales. (Through a combination of a strong housing market and improved REO procedures, REO losses have reduced over the past five years – See Chart 7 on the following page).

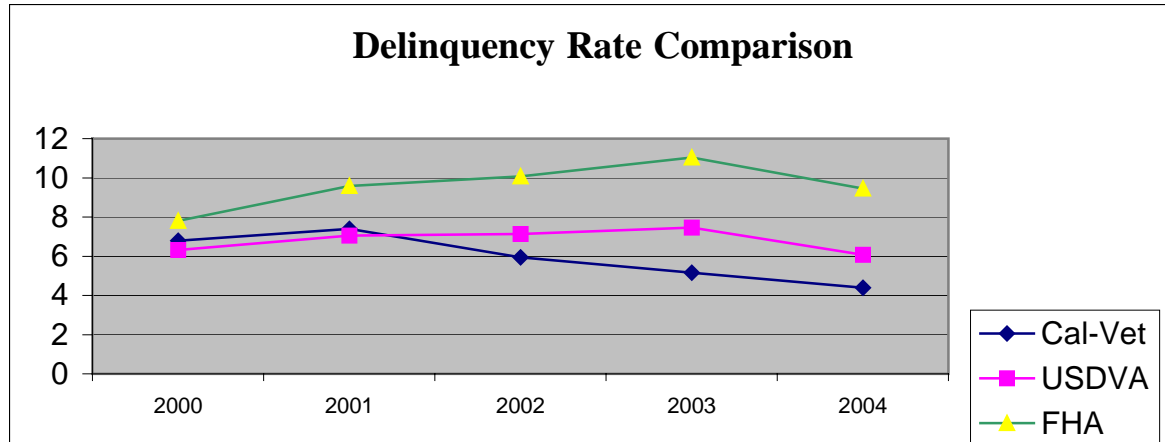


Chart 5: Delinquency rate comparison.

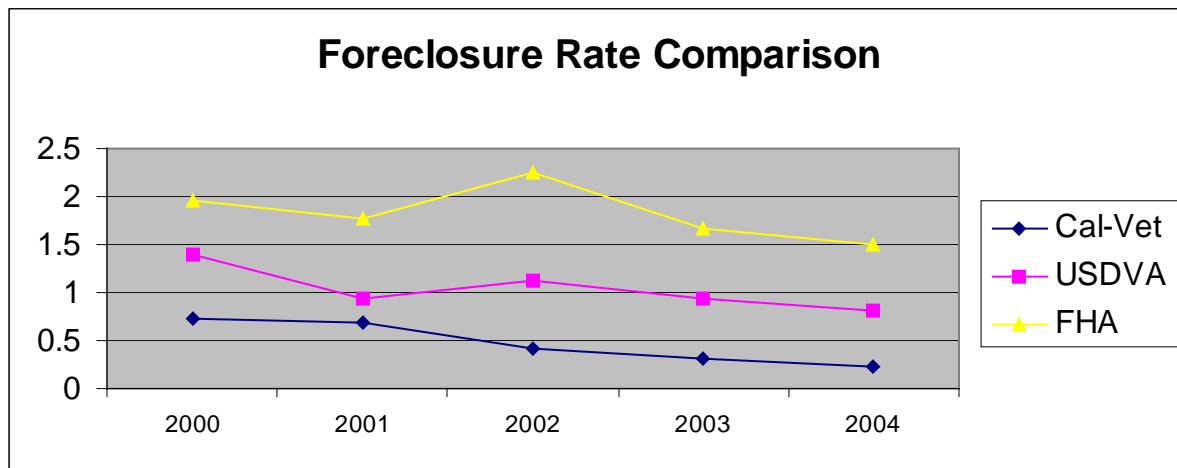


Chart 6: Foreclosure Rate Comparison

FY	CONTRACT BALANCE	NUMBER SOLD	REO GAIN	REO LOSS	NET GAIN OR LOSS
1990-91	\$ 7,274,092.49	121	\$ 971,466.05	\$ (753,068.25)	\$ 218,397.80
1991-92	\$ 4,114,398.63	73	\$ 884,653.85	\$ (291,050.95)	\$ 593,602.90
1992-93	\$ 3,314,336.03	48	\$ 301,886.43	\$ (432,600.59)	\$ (130,714.16)
1993-94	\$ 5,817,563.26	81	\$ 142,632.49	\$ (1,157,322.69)	\$ (1,014,690.20)
1994-95	\$ 9,408,374.00	102	\$ 217,036.32	\$ (2,404,179.68)	\$ (2,187,143.36)
1995-96	\$ 21,431,760.22	206	\$ 428,763.36	\$ (5,925,513.31)	\$ (5,496,749.95)
1996-97	\$ 48,117,558.85	482	\$ 708,208.73	\$ (15,989,181.16)	\$ (15,280,972.43)
1997-98	\$ 44,959,689.49	448	\$ 612,415.33	\$ (14,507,971.18)	\$ (13,895,555.85)
1998-99	\$ 42,601,977.00	421	\$ 476,305.31	\$ (12,594,570.00)	\$ (12,118,264.69)
1999-00	\$ 17,265,584.70	184	\$ 865,368.63	\$ (4,030,199.55)	\$ (3,164,830.92)
2000-01	\$ 10,109,325.67	104	\$ 975,859.57	\$ (1,306,365.31)	\$ (330,505.74)
2001-02	\$ 12,639,567.48	151	\$ 2,122,291.95	\$ (955,664.85)	\$ 1,166,627.10
2002-03	\$ 6,147,496.99	73	\$ 1,940,676.83	\$ (210,374.61)	\$ 1,730,302.22
2003-04	\$ 2,848,272.52	33	\$ 1,198,851.58	\$ (156,307.21)	\$ 1,042,544.37
<b>TOTAL</b>	<b>\$ 236,049,997.33</b>	<b>2,527</b>	<b>\$11,846,416.43</b>	<b>\$ (60,714,369.34)</b>	<b>\$ (48,867,952.91)</b>

Chart 7: Gain/Loss report 1991 – 2004.

- ***Home Protection Administration (HPA) Unit:*** The purpose of the Home Protection Administration Unit (HPA) is to administer all four Cal-Vet insurance programs in an effective, efficient, economical and customer service oriented manner. These programs include: insured life and disability, fire and hazard, disaster indemnity and private mortgage insurance (PMI). These coverages provide a benefit to both the customer and the Department. The HPA will accomplish its purpose through these ongoing efforts:
  - Obtaining the best coverage at the least cost, following established procurement guidelines.
  - Providing training to staff as needed.
  - Preparing/updating desk procedures for the various functions of the Unit.
  - Maintaining records of insurance transactions and claims.
  - Being responsive to contract holders during California disasters, such as earthquake or flood.
  - Monitoring claims to ensure claims are being handled effectively.
  - Reducing cost of repetitive claims in the Fire and Hazard Program.
  - Updating replacement costs of all covered properties.
  - Reducing the number of veterans currently drawing self-insured disability benefits by 10% by the end of the 2004-05 fiscal year, which will have a positive impact on the reserves required to support this pool.
  - Monitoring disabilities under the self-insured program in order to cut costs (this is an on-going effort).
  - Auditing the Standard life and disability expenses and claims on a quarterly basis.

The focus for *Loan Servicing Operations* is on customer satisfaction. Customer service has become the number one issue for organizations in all industries. Cal-Vet management has identified customer satisfaction as a priority for the division. Policies and programs will be implemented that economize the customer service functions to allow Cal-Vet staff to assist more customers with greater efficiency and accuracy.

A Senior Property Agent, who is responsible for general supervision, planning and production, manages each of the Loan Servicing Operations Units.

- ***Administrative Support:*** The mission of the Administrative Support Unit is two-fold: 1) develop and implement statewide marketing strategies to meet Division sales goals during periods of low loan volume, and improve the Program's image in the industry, and 2) provide administrative support to the Supervising Property Agents and Division Chief, including the preparation of monthly and weekly reports, follow-up on legislative inquiries, and personnel functions.

Marketing effectiveness is difficult to quantify or measure. The Unit is considering some methods of measuring the effectiveness of various advertising programs. Due to budget concerns, their current focus is on identifying the most cost-effective ways of getting current information to the core constituencies: veterans, active duty servicemen and women, real estate agents, and mortgage brokers.

The Administrative Support Unit will meet its mission by:

- Generating sales leads.
- Providing support for local marketing efforts, when needed.
- Updating information brochures and standardizing other marketing materials.
- Maintaining relationships with the major industry groups, including the California Association of Realtors and the California Association of Mortgage Brokers.
- Insuring the Cal-Vet Program attains high visibility at the appropriate trade shows, veterans' organizations conventions, and other appropriate marketing events, particularly targeting the pre-1977 veterans who may still qualify for QVMB funds over the next few years.
- Maintaining a formal Marketing Plan and operating within a budget established through the plan. The Marketing Analysis (Section 2 the Strategic Business Plan) discusses additional marketing strategies.
- Providing analytical support to Administration on projects, and preparing various management reports.
- Reviewing regulations and statutes, and helping to draft changes.
- Maintaining and revising Operations manual chapters as needed.
- Acting as liaison with legislative offices and various Departmental sections.

Marketing functions and staff will be redirected to the Executive Office in August 2004, and overseen by the Deputy Secretary of Communications. Staff will perform marketing functions for the Department programs as a whole, rather than just the Cal-Vet Program. Analytical functions and staff will remain with the Division.

### **Division Units – Loan Processing/Field Operations**

Origination of new loans is the core mission of the Division. If we cease to be effective as a loan originator, the continued existence of the Farm & Home Purchases Division will be called into question. To be successful, within our funding resources, we must meet the needs of the veterans as well as those of real estate professionals involved in the transactions, both in terms of the product we offer as well as in our delivery of that product.

While loan processing was centralized in 1998-99, the high application volume of 1999 and 2000, and more recently the staff reductions in Headquarters Units in 2003, have prevented us from realizing the expected benefits of centralization and left the Division dependent on the field offices for loan processing assistance. The dependence will continue in the immediate future until such time as staffing adjustments can be made to redirect positions to the centralized Loan Processing Unit.

The Program is meeting the needs of customers, and significant progress has been made in regaining the confidence of the real estate community. However, the potential of technical innovations and improvements will be considered to increase the productivity of staff, and creating a processing system that allows workload to be easily moved to where it can best be absorbed. We expect to maintain the advantages of centralization (do more with less and

improve standardization) while minimizing its limitations. The key will be maintaining an experienced and well-trained staff that is committed to providing excellent customer service.

Loan Processing/Field Operations is currently organized into two units (the Loan Processing Unit and the Escrow Unit), and nine field offices (seven District Offices and two Satellite Offices) throughout the state. A Senior Property Agent, who is responsible for general supervision, planning and production, manages each of the Units and field District Offices.

- ***Loan Processing Unit:*** The purpose of the Loan Processing Unit (LPU) is to accept and process new loan applications from the field office originators, confirm that the applicants meet established credit and eligibility standards, verify the market value of the property, collect appropriate documentation and verifications, and deliver completed loan packages to the Escrow Unit for funding.

The primary processing benchmark for loan originations is processing time. While all parties to a real estate transaction are concerned about the time it will take to process a loan, the expectations of the parties may vary. While a 30-days processing time is considered the norm and remains an overall goal, the ultimate goal of the Unit is to meet the needs of each applicant. We monitor processing time weekly and monthly for loans on existing single-family homes, and reports for 2002-03 and 2003-04 show that we are meeting our goal. However, the ultimate measurement is customer satisfaction, which we monitor through a survey that is issued at loan closing and also by the frequency of complaints from veterans, their real estate professionals, and/or their political representatives. None of these groups are shy about expressing their concerns, and formal complaints have been very low for the past two years. It is our intention to update our questionnaire to obtain better demographic data for use in marketing as well as other feedback on processing issues.

Additional program benchmarks will be cost of loan processing, and degree of customer satisfaction. The methodology to determine cost will be developed by September 30, 2004, and the cost can then be compared to that of other housing agencies. On-line surveys will be developed to measure customer satisfaction.

- ***Escrow/Post Closing Unit:*** The purpose of the Escrow Unit is to accept processed loans from the LPU and the field offices and issue instructions to the escrow holders that lead to funding of the loan and completion of the purchase. They must insure that all necessary fees and charges are collected from the appropriate parties, and that any remaining requirements of purchase are completed. In addition, the Unit performs critical post closing functions including ordering VA Guaranty certificates and various other tasks relevant to the USDVA Guaranty program, review of closing statements to insure compliance with instructions, verification that legal documents including property deeds are completed correctly and recorded, and confirming that the new loans are properly set up for servicing. The Unit also processes progress payments for construction loans. For all of these tasks, accuracy is critical to avoid errors that may cause difficulties for the veteran or the Division far into the life of the loan.

The Escrow Unit has an impact on loan processing time, which is primarily measured by the number of days it takes the Unit to issue loan documents after they receive the loan packages from Loan Processing and the Field Offices. The goal is to issue documents within two working days of receipt, and when funding requests are received, to issue funds within one working day. The Unit manager monitors these times using weekly pipeline reports. For the past two fiscal years, these goals have been met.

To accomplish their tasks, the Loan Processing and Escrow Units will:

- Establish and maintain communications with the parties to each transaction.
  - Consider every contact with the public an opportunity to market the Cal-Vet loan program by providing courteous and efficient service and accurate information.
  - Monitor their own workload to provide timely follow-ups for required items.
  - Make fair and impartial judgments as to each veteran's compliance with eligibility and underwriting standards.
  - Remember that they are administering a benefit that must be protected for all veterans by the application of sound business practices.
  - Identify and assist management in implementing streamlining measures.
- ***District Offices:*** The purpose of the District Offices is to provide the veteran and real estate professionals an opportunity for "local, personalized service". The purpose is accomplished by performing continuous market outreach to individual veterans, plus real estate and veteran's organizations. District Office staff provides Realtor and Mortgage Brokers with continuous education and certification, maintains Mortgage Broker records, and provides liaison between the local marketplace and the Loan Processing Unit in Headquarters, allowing the veteran and the real estate professional to have a sense of control over the process. In addition, the District Offices prequalify potential applicants to enable veterans to shop for a home with the knowledge that their financing is secure. Also, the District Offices provide the local service and experience required to effectively process Construction, Conditional Commitment (Rehabilitation), and Home Improvement Loans. The offices divert applications that clearly do not meet eligibility and/or funding requirements from further processing by the Loan Processing Unit, thereby allowing the Loan Processing Unit to concentrate on underwriting functions.

Furthermore, the District Offices serve as a "back up" with experienced loan processors to assist the Loan Processing Unit in times of heavy loan volume. The staff also assists various Loan Servicing Units when local presence is needed, such as to confirm occupancy or review insurance repairs.

The District Office operates under the control of a District Manager (Senior Property Agent) with jurisdiction over specified territories.

- ***Satellite Offices:*** The purpose of the Satellite Offices is the same as that of the District Offices. However, the Satellite Offices are extensions of a particular District Office, and



act under the auspices of the District Office Manager. An Associate Property Agent acts in a “lead” capacity in the Satellite Office.

Presently, there are two Satellite Offices in the State: the Ventura Office (an extension of the Bakersfield District Office), and the Santa Clara Satellite Office (an extension of the Fairfield District Office). The Santa Clara Office is primarily used by the Santa Clara County CVSO, with itinerant servicing performed out of that office by the Fairfield District Office.

In an ongoing effort to effectively manage the organization, the Ventura Satellite Office and Fairfield District Office will be closed by the end of the 2004 calendar year. The demographics no longer support the need for offices in these areas, therefore the offices are no longer cost-effective to operate.

Further downsizing of District Offices *may* occur over the next 24 months, depending on demographics, loan volume, funding availability, and the budget. However, further closures, if necessary, will not occur without a plan to absorb the workload and readjust office boundaries.

### **Program Support Units**

Program Support Divisions are an integral part of the Program without which the Division and Program could not operate. The following are descriptions of the support Divisions.

- ***Accounting and Cashiers Office:*** The Accounting and Cashiers Office supports the Farm & Home Loan Division as follows:
  - Issues checks same day as requests are received for purchasing new homes and funding construction loans for veterans.
  - Issues checks for other loan disbursements, such as property taxes and refunds to veterans, within 2-5 days.
  - Processes disbursements for all vendor payments, employee travel and training, insurance premiums, debt service, and all operating expenses.
  - Processes and deposits veterans home loan payments and payoffs same day or within one day of receipt, maximizing interest earnings for the program.
  - Processes loan adjustments on veterans' accounts.
  - Monitors cash balances and maintains investment records, transferring funds between accounts as required.
  - Maintains financial records and prepares monthly and annual reports to assist the Division in managing the financial condition of the program as well as the internal operating budget of each office.
- ***Bond Finance Division:*** The Bond Finance Division is an important component of the Cal-Vet Home Loan Program with the following primary responsibilities:

- Issuing tax-exempt General Obligation and Revenue bonds to provide funding sources for the program. The current program bond portfolio size stands at over \$2.05 billion as of June 30, 2004.
  - Managing cash investments and cash flow.
  - Actively managing the bond portfolio as well as cash investments to minimize the cost of program debt while maximizing the returns on investments.
  - Updating and monitoring compliance of the Program Operating Procedures (POPS), ensuring that the Program conforms and complies with the numerous federal and state laws and bond covenants.
  - Sharing in the decision making process for establishing and modifying program's mortgage contract rates.
- **Budget Office:** The Budget Office provides technical assistance to the Cal-Vet Home Loan Program through:
    - Budget planning.
    - Development and review.
    - Monitoring position control and personnel transactions for monetary impact.
    - Reviewing contracts funded by the Farm and Home Building Fund.
    - Preparing reports and schedules for internal use as well as reports and documents that are required by the Department of Finance, the Department of General Services, the Legislative Analyst's Office, the Governor's Office, and the Legislature.
    - Preparing the display for the annual Governor's Budget, which includes a summary of expenditures, a fund condition statement, and schedule of salaries and wages for the Farm and Home Loan Program.
  - **Human Resources Division (HRD):** HRD supports the management of the Cal-Vet Loan Program (Farm and Home Division) by:
    - Providing guidance and direction on recruitment and selection.
    - Addressing all employee payroll and job benefits.
    - Monitoring job classification and compensation.
    - Providing progressive discipline assistance and training.
    - Administering the California Department of Veterans Affairs responsibility to Workers Compensation/Return to work, Fair Political Practices Commission and Health and Safety programs.
    - Administering all employee award programs.

In carrying out these responsibilities, the HRD staff issue corresponding policy and procedural guidelines to management and supervisory staff of the Farm and Home Division.

- **Information Services Division (ISD):** ISD supports the Cal-Vet Loan Program by providing the following services:
  - Technical support and development for the Farm and Home Information System (FHIS), Mitas.

- Technical support for desktop computers, laptops, printers, scanners, network, telephones, and other peripherals.
- Desktop software support and training.
- Network and telephone connectivity.
- Website support.
- Operational recovery.
- New technology strategic planning and analysis.
- Information technology procurement.
- Database development.
- ***Law Division:*** The Law Division deals with all legal matters pertaining to the Program, including:
  - Filing Unlawful Detainer Actions and litigating through eviction when contract holders fail to pay.
  - Filing motions for relief from stay to remove the home from the bankruptcy trust so it can be resold in cases where contract holders in serious default file Bankruptcy;
  - Filing Quiet Title Actions as needed when there are title issues that cannot be resolved through the regulatory process.
  - Defending the Program against lawsuits (both general and specific) filed by contract holders or other parties.
  - Providing legal opinions on various matters of law when requested.
  - Defending the Program at formal appeal hearings with the CalVet Board.
  - Monitoring and reviewing the insurance programs if requested.
  - Reviewing contracts for such things as insurance services.
  - Assisting the Program with special projects.
- ***Office of Procurement & Contracting (OPC):*** The OPC supports the Cal-Vet Home Loan Program by:
  - Contracting for outside professional services required for program needs. These contracting services ensure compliance with applicable federal and state procurement and contracting laws, regulations, rules and policies.
  - Providing administrative support services.
  - Providing Cal-Vet Managers and Supervisors with contractual advice and technical assistance in selecting appropriate procurement methodologies, developing required documents, and securing all required authorizing signatures and approvals.
  - Space planning.
  - Facility management.
  - Telecommunication.
  - Processing postal mail (i.e., daily mail, mass mailing, and express mail services).

## **INTERNAL /EXTERNAL ASSESSMENT**

The Program will perform annual analyses to track accomplishments (according to goals and objectives outlined in this report), and to assess its strengths, weaknesses, opportunities, obstacles, constraints and internal/external threats.

An internal assessment of the Program's operating environment using Baldrige methods/criteria and informal surveys of management and staff led to identification of needs and suggestions for improvement. This information was used by the Strategic Planning Team to perform an analysis of the strengths, weaknesses, opportunities and threats facing the Program. This analysis led to the development of strategic goals and objectives, and actions plans to meet those goals. The following is a summary of the results of the analysis:

### ***Strengths:***

- Long-term, loyal staff.
- No cost to the taxpayers for the program.
- Greater flexibility than other lenders to aid contract holders in times of hardship and in obtaining group insurance due to our Contract of Sale and authority under the M&VC.
- Disaster Indemnity coverage for all contracts, and additional coverage for Fire and Hazard and Life and Disability that is superior to that found in the market.
- The ability to provide below-market interest rates on new loans.
- In-house loan underwriting and servicing.
- Delinquency and foreclosure rates that are lower than FHA and VA.
- The Division has improved its use of information technology, has access to better information, and has an improved reporting capability.
- Management's understanding of the issues currently facing the program and willingness to restructure the program accordingly.
- Quality quantitative consultant and bond counsel services available.

### ***Weaknesses:***

- Low conventional interest rate environment contributing to high prepayments, combined with high non-callable debt and low investment rates, is causing a negative carry and deterioration in fund equity.
- Federal regulations limit the use of QVMB funds.
- Limited long-term supply of "unrestricted" monies necessary to make loans to veterans who do not qualify for QVMB or QMB funds.
- Competition with other agencies for QMB allotments.
- Lack of flexibility to contract or expand the organization quickly in response to the economic and market environment.
- Lack of a specific, current Strategic Business Plan since 1999.
- Effects of California's budget environment.
- A portfolio that is reducing, but expenses that have not reduced proportionately.

- Outdated Operations Procedure Manuals for Loan Servicing Units.
- Staffing is not matched to workload (a workload study will be performed to correct any imbalance).
- Aging workforce with no clear succession plan. Approximately 35% of the workforce statewide is nearing retirement age within the next 5 years, and about 40% of those are management.
- Lack of communication between the Division and its support Units.
- Past high turnover of Executive and Division (administrative) staff, which lead to lack of clear Departmental direction.

### ***Opportunities:***

- The Division is working with four other states to facilitate passage of federal legislation to eliminate the 1977 sunset date restriction on QVMB funds
- The current climate of patriotism enforces the importance of the Program as a benefit and way to thank veterans for their sacrifices. It is important that customers are reached, particularly in focused efforts such as to Vietnam Era veterans who are still qualified for QVMB funds. Opportunities for marketing the program include community and military events.
- The Division has the opportunity to effect program enhancements through proposing legislation needed to modify or change statutes.
- With recent training in self-evaluation, the Division has an opportunity to perform effective self-evaluation to identify weaknesses and ways of improving operations and customer/ staff focus.
- Opportunities for partnering with other lenders or agencies to originate loans or remarket loans may exist.
- The Program has identified an opportunity under existing law to fund loans in areas declared as disaster areas by the President through QMB proceeds.

### ***Obstacles and Constraints:***

- Federal restrictions to QVMB's that restrict the pool of qualified purchasers.
- Restrictions on funding sources, and limited long-term availability of unrestricted funds.
- Competition from other lenders with competitive rates.
- Inability to go to the bond market as needed (which contributes to higher negative carry), as we are tied to the schedule of the State Treasurer's Office.
- Fluctuations in the marketplace (the general economy), and high cost of housing in California.
- Budget constraints and hiring freeze.
- Political pressure to use the operating fund for purposes other than what it is intended or is fiscally responsible.
- Competition for skilled workers.
- Lack of fully interactive Internet capability.
- Legal and contract constraints to outsourcing functions.

- Program dependency on other support Units/Divisions who may have conflicting priorities.
- Institutional Inertia. Changes in government occur slowly in a rapidly changing marketplace.

***Where does the Program want to be one to three years from now?***

- The Program will be the best loan in California for eligible veterans returning from service.
- The Program will remain part of the CDVA team, and continue to be a benefit for California's veterans.
- The Program will have evolved into a "supply based" program, rather than basing its business decisions on demand, that operates cost-effectively and efficiently within its budget and funding supply.
- The Program will have established procedures for use of alternate sources of financing if/when necessary (and after non-callable, high cost debt has been reduced or revenues increase), and will have explored the possibilities of partnering with other lenders for originating loans.
- The Program's applicant pool will have been expanded through passage of HR1742 or other similar federal legislation to remove restrictions on the use of QVMB.
- The Program will have an organizational structure that can adjust rapidly to the market and remain competitive.
- The Program will have a fully interactive presence on the Internet, and will have increased its on-line application usage to 50% by June 30, 2006 (usage as of April 1, 2004, was 33%). Technology will be used to enhance human resources.
- The Program will have established procedures to update its Business and Strategic Plans, and will have accomplished the goals set forth in the Plan within the scheduled time frames.
- The Division will be an organization that is proactive, rather than reactive, and delivers (not just promises) excellent customer service.
- A trained and motivated staff will be in place, and all policies and procedures will be documented and reviewed annually.
- Loans will continue to be processed within timeframes imposed by the needs of our applicants and the industry through agreements, regulations or custom (typically 30 days or less).
- The budget will have been zero-based by December 31, 2004, based on a realistic projection of loan volume and portfolio size, and subsequent budgets will be developed and monitored thoughtfully and cost-effectively.
- The Department will know the cost of specific outcomes (such as cost of processing and funding a new loan, or servicing an existing loan).
- Opportunities for outsourcing are identified and implemented within legal and cost constraints.

### ***Metrics for measuring Program performance:***

The Division will measure program performance on key processing functions in a variety of ways. The Program will be compared to and benchmarked against similar housing programs and/or the industry where possible. In some cases, the only comparison can be to past Program performance. These metrics meet the basic criteria of gauging progress towards goals, representing the scope of Division responsibility, and representing accurate data sources. The following chart outlines our program metrics and comparisons. Specific metrics for accomplishment of goals will be discussed under the section of this plan describing “Goals, Objectives and Strategies”.

<b>PRODUCT/SERVICE</b>	<b>MEASUREMENT</b>	<b>HISTORY<sup>5</sup></b>	<b>COMPARISON</b>
Loan Origination	Loans originated (by \$ and #) D.O. Production On-Line Originations # loans orig. by Mort. Brokers # of loans originated on-line Comparison of interest rates	5 years 5 years 6 mos. 5 years 6 mos. 10 years	CDVA, other similar housing programs and industry where applicable.
Loan Processing/Funding	Loans funded (by \$ and #) Cost per loan Customer satisfaction survey Loan processing time	10 years Pending 3 years 5 years	CDVA, other similar housing programs and industry where applicable.
Loan Servicing	Delinquency/Foreclosure/REO rates REO gains/losses Prepayment rate Portfolio size (by \$ and #) Servicing costs Customer Complaints/Appeals	7 years 10 years 5 years 10 years 1 month 2 Years	CDVA, other similar housing programs, FHA/VA and industry where applicable.
Insurance	# and \$ of claims paid Premiums received/paid # of multiple claim filers # of new loan holders opting for D/I	5 years 5 years Tracked by GAB 1 year	CDVA, industry
Additional Loan Products	HIL's funded (by # and \$) C/L's funded (by # and \$) Rehab. Loans funded (# and \$)	5 years 5 years 5 years	CDVA, other similar housing programs and industry where applicable.

***Chart 8: Metrics***

<sup>5</sup> The Division can produce historical information on these metrics for at least the number of years shown.

The Program is a full-service home mortgage business serving the veterans of California. As such, the Program must continually strive to remain competitive, both in the costs to veterans (interest rates) and the services we provide (insurances, contract services and loan processing).

### ***Stakeholder Analysis:***

Through the Baldrige Training, the Division identified its stakeholders. A stakeholder is any person, group, or organization that can place a claim on the Program's attention, resources, or product. Knowing the needs and expectations of stakeholders gives a better understanding of how our product and service can be improved and marketed. This becomes increasingly important if some field offices close and customers must be reached through a network of real estate professionals and veterans service organizations. The following identifies the Program's stakeholders.



## **STAKEHOLDERS**

VETERANS  
 VETERANS' ORGANIZATIONS<sup>6</sup>  
 ACTIVE DUTY MILITARY  
 CALIFORNIA NATIONAL GUARD  
 CAL-VET BOND PURCHASERS  
 REAL ESTATE PROFESSIONALS  
 MORTGAGE BROKERS  
 TRACT HOME DEVELOPERS, CONTRACTORS  
 TITLE COMPANIES  
 UNITED STATES DEPARTMENT OF VETERANS AFFAIRS  
 COUNTY VETERANS' SERVICES OFFICES  
 INSURERS  
 HOMEOWNERS' ASSOCIATIONS  
 LICENSING BOARDS  
 INTERNAL REVENUE SERVICE  
 FRANCHISE TAX BOARD  
 CITY, COUNTY AND STATE AGENCIES  
 PUBLIC UTILITIES  
 LEGISLATURE  
 COURTS

***Chart 9: Stakeholders***

<sup>6</sup> CDVA held its first Stakeholder meeting March 3, 2004, attended by representatives from various Veterans Service groups and political representatives. The next stakeholder meeting is scheduled for October 1, 2004.



## **GOALS, OBJECTIVES, TASKS and METRICS**

The following core goals are designed to meet the mission of the Department and Division, as well as address program challenges. Goals will be reached in one-to-five years, will be reviewed frequently to update the status (not less than an annual review), and adjustments will be made as necessary to actions needed, completion dates, or to reassign resources. The metrics identified for each goal are meaningful and quantifiable.

Attached as Appendix 1-c is a matrix of responsibilities and expected completion dates, and the numbering system used below corresponds to the matrix.

### **Strategic Goal #1: Maximize QVMB funding over the next 3 years.**

- 1.1 Increase outreach activity to target VN era (pre-1977) veterans with remaining QVMB eligibility, and to recent war veterans who are more likely to have first-time homebuyer status.
- 1.2 Establish a Finance Committee consisting of representatives from Administrative Services, Bond Finance, Accounting and Farm and Home Purchases. The team may also include industry consultants (voluntary participation). The team would meet regularly to discuss financial challenges, funding needs and strategies to meet the needs and challenges.
- 1.3 Work with Bond Finance and cfX to identify alternate funding options, procedures for their use, and timing of use.
- 1.4 Monitor existing funding sources, interest rates and the market in order to take advantage of market changes quickly.
- 1.5 Apply to the California Debt Limit Allocation Committee in 2004 for additional Revenue Bond allocation.
- 1.6 Use every means possible to facilitate passage of legislation to eliminate restrictions on the use of QVMB funds.

### **Action Plans:**

- 1.1.a Identify, analyze and understand market segments.
- 1.1.b Maintain a Marketing Plan with focus on Viet Nam Era veterans eligible for QVMB funds, women and minorities, in order to realize approximately \$600,000,000<sup>7</sup> million in total sales over the next two years (depending on funding supply).

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<sup>7</sup> Based on an estimated \$270 million QVMB loans, plus \$300 million in U/R, plus \$30 million in QMB over 2 years.

- 1.1.c Change outdated perceptions of Cal-Vet's abilities to respond to customers in a timely manner.
- 1.2.a Identify committee members.
- 1.2.b Establish the Committee purpose, Chairperson, and Secretary, and the meeting schedule.
- 1.3.a Use the Finance Committee as a vehicle for discussion.
- 1.3.b Work with cfX and Bond Finance to establish feasibility.
- 1.4.a Use Interest Rate and Finance Committees as vehicles for discussion.
- 1.4.b Monitor FreddieMac rates weekly.
- 1.4.c Produce review weekly reports showing status of allocations.
- 1.5.a Prepare justification and supporting information.
- 1.5.b Apply to the Dept Allocation Committee for additional allotment.
- 1.6.a Continue to participate in the strategic teleconferences with the other four States (Alaska, Oregon, Texas and Wisconsin) with QVMB programs.
- 1.6.b Pursue contacting members who are not yet co-sponsors of Federal Legislation.
- 1.6.c Obtain Executive Office approval to hire a lobbyist to assist in the passage of HR1742 or future legislation to remove federal restrictions on the use of QVMB funds.

Measurements:

Performance in the above areas can be measured by:

- Loans funded by funding type (QVMB, QMB or Unrestricted).
- Track interest rates and compare to conventional rates.
- Track revenues received from contract interest.

**Strategic Goal #2: Restructure operations to accommodate a program funded primarily through Unrestricted funds.**

Objectives:

- 2.1 Determine an appropriate organization structure, particularly since the 2003 downsizing efforts, which can allow for further consolidation as needed to respond to loan volume and portfolio reduction.

- 2.2 Develop a staffing model and methodology to determine appropriate staffing according to portfolio size and loan volume.
- 2.3 Determine an appropriate operating budget, according to funding supply/portfolio projections, and make changes to the Program Operating Procedures (POPs) accordingly (a zero-based budget).
- 2.4 Slow the erosion in fund equity by maximizing revenues and reducing costs. Utilize higher-yield investments as the opportunity arises, such as moving cash from SMIF and investing in GIC's or redeeming/refunding high cost bond debt.
- 2.5 Compare the Cal-Vet Loan Program to other similar agencies and veterans housing programs to determine if there are additional products the Program can offer, better ways of providing service to veterans, other ways to finance the Program, or if customers are being reached successfully.
- 2.6 Annually update a Farm and Home Purchases Strategic Business Plan, which will drive the operations of the Program and act as a metrics baseline. Although the Program has produced Business Plans in the past, they have not been maintained or produced on a set, annual schedule.

Action Plans:

- 2.1.a Study demographics and productivity to determine appropriate number and locations of field offices.
- 2.1.b Closely monitor loan servicing and origination costs and outsource if cost-effective.
- 2.1.c Update organizational charts as necessary.
- 2.1.d Identify processes that can be outsourced, and determine if outsourcing is feasible.
- 2.2.a Perform a work/task study over several months to gather information needed to develop a staffing model, and consider the use of VA work-study students<sup>8</sup> or other temporary staff to address the seasonality of the business.
- 2.2.b Develop a staffing model that calculates man-hours needed to perform functions according to projected work volume and loan portfolio size.
- 2.3.a Study all Farm and Home funded positions to determine if they are used for other than Farm and Home purposes, and if so, if they are being allocated appropriately.  
Obtain a copy of the allocation report for review and provide feedback to Finance.

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<sup>8</sup> The use of VA work-study students is at no cost to the CDVA, and is an example of "Veterans helping Veterans".

- 2.3.b Develop a methodology to zero-base the Program budget, train Unit Managers on the process, and combine the Units' budget needs into an overall Farm and Home budget (build Unit/Program Budgets based on actual portfolio and funding performance).
- 2.3.c Determine a marketing budget.
- 2.3.d Provide monthly budget reports to the Unit managers so they can track Unit performance.
- 2.4.a Use creative economic refunding techniques to realize economic gains when possible and keep the program viable. For example, during fiscal year 2002, the Department issued General Obligation (G.O.) Bonds totaling \$111,325,000 and Revenue Bonds totaling \$117,200,000 with an average interest rate of 5.36%. Bond proceeds from these sales were used to refund previously issued G.O. of \$111,325,000 and Revenue bonds of \$117,200,000. This resulted in a decrease of total debt service payments over the next 15 years by approximately \$21,036,000 and realized an economic gain of approximately \$7,916,000.
- 2.4.b Increase interest rates as market rates increase for a higher investment yield.
- 2.4.c Implement TQM teams in each Unit to identify efficiency measures or other ideas to either cut costs or increase revenues.
- 2.4.d Invest loan funds in new loans:
  - Target marketing to veterans with remaining QVMB eligibility. (See Strategic Goal #1.)
  - Market to first-time homebuyers in order to increase loans to those qualifying for QMB funds. (See Strategic Goal #1.)
  - The Marketing Unit will set up a schedule of task priorities, actions, responsibilities and timelines for marketing proposals.
- 2.4.e Change M&VC appropriately to eliminate cumbersome documentation requirements for purchase money seconds and attract secondary lenders, which will allow veterans to purchase in high cost areas.
  - Assign the project to a Field Office Manager, and set project start/review/completion dates.
  - Work with the Legislative Affairs Office to draft language for a proposal to facilitate the use of secondary lenders, and the Legislative Affairs Office will find a sponsor for the bill to start the legislative process.
  - Prepare procedures to implement the changes (if legislation passes), and to market the "new and improved" process to the secondary lenders.
- 2.4.f Study the concepts of remarketing loans and/or using a network of lenders to originate loans.

- 2.5.a Research similar programs, develop a comparison chart, and present findings to senior management.
- 2.5.b Perform a study on the cost other similar institutions pay for outsourcing (such as CalHFA, and Wisconsin, Texas, Oregon and Alaska housing programs), as opposed to the cost of Cal-Vet loan servicing.
- 2.5.c Determine a methodology for computing the cost of loan servicing and loan origination/processing.
- 2.6.a Assign responsibility for maintenance of the Business Plan to the Administrative Services Unit, and develop a schedule for production/review of the report.
- 2.6.b Continue to define and update the Program's mission, vision, values goals and objectives.
- 2.6.c Develop a means of tracking program performance against the metrics ("actual" performance vs. "target" performance per the Business and Strategic Plans).

Measurements:

Progress and performance in the above areas will be measured through:

- Periodic comparisons of products, housing benefits offered, services and outreach with other similar programs.
- Portfolio increase or reduction by dollar and number.
- Amount of money loaned and number of loans funded.
- Comparison of actual project timelines to proposed timelines.
- After a feasible budget figure is established, track success in staying within an annual budget by both individual Unit and the Division as a whole, and identify savings.
- Track fund equity.
- Track costs of loan servicing and processing as percentage of the budget.

**Strategic Goal #3: Improve the Processes Related to the Farm and Home Loan Program, including the Support Units.**

The Farm and Home Purchases Division has been committed to concepts of total quality management and ongoing assessment of its processes in order to provide the best possible service at the least cost. The Program must follow the mandates of State cost-cutting objectives as well as keep our administrative costs low to maintain the confidence of the rating agencies and bond market.

Objectives:

- 3.1 Identify key business processes, and identify procedural efficiencies that will reduce operational costs.
- 3.2 Document processes by priority.
- 3.3 Continue to develop measurement standards, history and benchmarking.
- 3.4 Implement process improvements, and develop a monitoring system.
- 3.5 Complete a “Cal-Vet Business Continuity Plan”.

Action Plans:

- 3.1.a Establish a process improvement committee, which will consist of at least one staff from each Farm and Home Division and support Unit. The committee members will share ideas about cost efficient improvements, mapping processes, maintaining procedures, setting priorities, etc.
- 3.1.b Set up an electronic repository (suggestion box) where staff can submit suggestions that will be addressed by management.
- 3.1.c Identify current processes through mapping the various functions. Once mapped, the processes can be reviewed for efficiency, and changes made accordingly.
- 3.1.d Implement a project to determine appropriate replacement cost values on properties so all veterans will be paying their fair share of premium, and premium rates may not have to increase (although amount paid may increase due to a higher replacement cost).
- 3.1.e Work with FannieMae to obtain access to their automated loan-underwriting program.
- 3.2.a See 1.1.a above. The process improvement committee will establish process review priority (with the concurrence of the Division Chief).
- 3.3.a Identify the various reports needed to provide measurements, the history available, and what agencies will be used to benchmark our program against.
- 3.3.b Develop the reports accordingly, including a performance report that compares the “actual” performance to the “target” performance.
- 3.4.a Update Desk Procedures and Operations Manual Chapters for all units, and review them annually according to a set schedule as entered on the Division’s “Master Calendar”.
- 3.4.b Utilize the Division’s Intranet so that up-to-date versions of desk procedures, the Operations Manual and Field Office Directives can be accessed by staff on-line.

- 3.5.a A “Cal-Vet Business Continuity Plan” is in process and nearing completion. Sections still need to be added to address system continuity.

Measurements:

The measures listed below are indicators of process efficiency through measurements of timeliness, production, cost or quality (customer satisfaction).

- Number of loan processes identified, mapped, changed, and potential savings resulting from the changes.
- Timeliness of processes.
- Number of loans pre-paid.
- Number and types of insurance claims.
- Penalties paid on property tax payments.
- Collections, foreclosure and REO statistics.
- Space required and cost of records maintenance.
- Customer satisfaction, as measured by surveys and complaints received.

**Strategic Goal #4: Deliver excellent customer service and improve customer outreach**

The Program has been challenged by market rate fluctuations that have made the program either so desirable that application volume tripled (1999/00) causing delayed loan processing and customer dissatisfaction, or have made the program uncompetitive because of low outside rates and more flexible programs (2000/01-03). Past customer dissatisfaction has left the Program with a need to improve real estate professionals’ perceptions of the Cal-Vet Loan Program so they will consider Cal-Vet once again the “loan of choice”. It is also evident that many veterans are still unaware of Program advantages, particularly those veterans migrating into the State, and outreach efforts must improve, particularly to those veterans who are still eligible for QVMB and QMB funds (as per Strategic Goal #1).

Objectives:

- 4.1 Improve customer outreach through the 2004-05 Cal-Vet Marketing Plan.
- 4.2 Maintain customer and market demographics.
- 4.3 Utilize improved methods of measurements and feedback from customers to improve service.
- 4.4 Improve customer access.
- 4.5 Improve competitive position in the marketplace.
- 4.6 Improve employee knowledge and skills.
- 4.7 Maintain security of customer and account information.

Action Plans:

- 4.1.a Continue to train and partner with Mortgage Brokers and real estate professionals in order to enhance Cal-Vet's presence in the market.
- 4.1.b Develop a method to regularly review and update Mortgage Broker manuals and information, and utilize Internet capabilities to improve communications with brokers and provide program updates.
- 4.1.c Attend strategic community/industry events and Veterans Group conferences.
- 4.2.a Although demographic sources have been identified, assign responsibility for maintenance and reporting of the information.
- 4.3.a Survey customers on loan processing through the use of on-line surveys.
- 4.3.b Survey customers on loan servicing through the use of on-line surveys .
- 4.4.a Improve customer service through technology, such as on-line account access that enables contract holders to access their account information on-line.
- 4.4.b Enhance EFT features so customers can make payments on-line or over the telephone, and to offer a choice of withdrawal dates. Approximately 8% of our customers use EFT as of April 1, 2004, and our goal is to increase that amount by 20% by the end of the 2005/06 fiscal year.
- 4.4.c Review demographics to determine the best location and boundaries of service locations for field offices or for performance of itinerant servicing.
- 4.5.a Establish a Customer Focus committee to identify the needs of our customers.
- 4.5.b Work with lenders to determine ways of making purchase money seconds or secondary financing more easily accomplish.
- 4.6.a Establish an "Education Committee" to identify training needs and to develop in-house training programs.
- 4.6.b Investigate the possibility of using the Program Technician III classification, which would provide a greater technical resource for the customers, as well as provide opportunity for advancement for staff in the Program Technician series who excel.
- 4.6.c Work with Personnel Management to complete the process to make the Property Agent series a "deep class", which has a number of advantages, including reducing costs since the exam process for movement between ranges will no longer be necessary.
- 4.7.a Update privacy policies and procedures.



4.7.b Improve quality control on new loans to insure that accounts are set up correctly.

4.7.c Review MITAS history reports daily.

**Measurements:**

The measurements listed below are meaningful to measure the Program's ability to provide good customer service and the success of improvements in this area. They will measure how well the Program knows its market, how well the Program's customer base is accessed (who do we reach, and how), customer satisfaction, acceptance in the industry, and whether the Program's products and services meet the needs of the veterans.

1. Number of general and regionally identified market segments.
2. Survey results (number sent, response rate, satisfaction rating).
3. Number of Mortgage Broker certificates issued.
4. Number of real estate professionals trained through DRE classes.
5. Number of customer complaints to Farm and Home or appeals to the California Veterans Board received.
6. Number of loans originated from the Internet.
7. Number of participants in the EFT program.
8. Comparison of interest rates/down payments/fees/loan types.

## **RESOURCES**

It is critical that Program management understand the resources available for Program operations, particularly as we move into a program based on Unrestricted funds as the primary funding source as QVMB funding wanes. The following tables project funding, personnel and budget resources.

***Loan Funds:***

The availability of funds will drive new loan activity. Although fund availability can be projected, there are factors that could affect the use of the funds, such as interest rates and federal legislation, which could affect the demand for the program and number of veterans still eligible for QVMB funding. As of June 30, 2004, the Program has the following funds available to fund loans to veterans:

SOURCE	CURRENTLY AVAILABLE	TOTAL AUTHORIZED (but not issued)
QVMB	\$ 20,598,000	\$605,585,000
QMB	\$ 27,435,000	N/A
Unrestricted	\$375,830,000	N/A
<b>TOTAL</b>	<b>\$423,863,000</b>	<b>\$605,585,000</b>

*Chart 10: Funding availability, as provided by Bond Finance.*

The following is projected availability over the next five years, based on current trends regarding prepayments, housing costs in California, and estimated usage. These figures would change significantly if QVMB legislation were to pass lifting restrictions, thereby increasing the use of QVMB and reducing the use of Unrestricted funds.

SOURCE	2004-05	2005-06	2006-07	2007-08 <sup>9</sup>	2008-09
QVMB <sup>10</sup>	\$100,000,000	\$100,000,000	\$100,000,000	\$25,000,000	\$25,000,000
QMB <sup>11</sup>	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000
Unrestricted	\$150,000,000	\$150,000,000	\$150,000,000	\$150,000,000	\$150,000,000
<b>TOTAL</b>	<b>\$265,000,000</b>	<b>\$265,000,000</b>	<b>\$265,000,000</b>	<b>\$190,000,000</b>	<b>\$190,000,000</b>

*Chart 11: Funding usage. QMB and U/R estimates provided by Bond Finance; QVMB estimates based on projected usage assuming a decreasing eligibility pool and increased targeted marketing.*

### ***Personnel:***

The following chart is a breakdown of staff currently funded by Farm and Home by direct, indirect and total positions. Direct costs are those staff involved directly in program administration, loan origination/processing or servicing. Indirect costs are those staff in support Units.

<sup>9</sup> Subject to identifying alternative sources of funding.

<sup>10</sup> Estimated (best guess) expected usage, as opposed to expected supply (monies available plus total authorized but unissued), considering few VN (pre-1977) veterans will remain eligible after 2007.

<sup>11</sup> Subject to seeking additional allocation.

<b>DIRECT COSTS: (Personal Services -- Division Units)</b>			
<b>Unit Name</b>	<b>Number of Positions 2004</b>	<b>Cost of positions + benefits<sup>12</sup></b>	<b>1998-99 FY</b>
Administration	6	\$ 525,365	
Administrative Support	6	338,243	
Contract Services	14	881,034	
Foreclosures/REO	11	689,700	
Home Protection Admin.	6	453,461	
Loan Processing	11	720,167	
Escrow	13	667,249	
Statewide Field Operations	50	3,202,873	
<b>TOTAL</b>	<b>117</b>	<b>\$ 7,510,909</b>	<b>\$ 7,073,558</b>
<b>INDIRECT COSTS: (Personal Services -- Support Divisions)</b>			
Executive Office	5	\$ 230,822	
Law Division	6	682,042	
Leg. & Public Affairs	3	268,725	
Information Services	19	1,522,294	
Personnel Management	7	420,831	
Labor Relations	1	102,094	
Bond Finance <sup>13</sup>	3	300,825	
Budgets	2	134,016	
Accounting/Cashiers	11	633,929	
Management Analysis	2	160,420	
Business Services	1	52,435	
Cal-Vet Board	1	66,351	
<b>TOTAL</b>	<b>61</b>	<b>\$ 4,574,784</b>	<b>\$ 4,093,071</b>

*Chart 12: Direct and Indirect personnel cost breakdown. Source: Budget Office (Q12) and HRD.*

Approximately 62% of the total cost of Farm and Home funded positions apply to direct costs, and 38% of the cost is indirect. Five years ago (1998-99), the ratio was 63% and 37%, respectively. Personnel expenses have increased by 8.23% since the 1998-99 Fiscal Year. However, one must consider that salaries and benefits have increased over the past five years. It should also be noted that during the 2000-01 period, loan originations rose to such a high level that additional staff was hired in both Farm and Home and support divisions to handle the volume. Since that time, volume dropped and direct Division staffing was reduced by

<sup>12</sup> Figures are based on actual positions/salaries as of April 1, 2004 (as provided by the Budget Office) + estimated benefits applied at a factor of .4042%, which includes Workman's Compensation premium.

<sup>13</sup> Bond Finance should be included in Direct Costs since it has no General Fund connection; however, for purposes of comparison to 1998-99 data, it is included under Indirect Costs.

approximately 22% to its present level of 117 positions (from 155 positions). We project that staffing will reduce by another 30% by the end of the 2005-06 fiscal year through Field Office closures and attrition in all Program areas

Farm and Home indirect positions are reviewed, and allocations are made for any positions that are “shared” with Divisions funded through General Funds. The Division was reimbursed approximately \$600,000 during the 2002-03 Fiscal Year for allocated positions. In addition, a push was made to move shared positions out of Farm and Home funded positions into General Funded positions.

As the Program budget is “built” through zero-basing, indirect services staff will be reassigned to direct services positions as those positions become vacant through attrition. Funds will be budgeted for retraining purposes.

### ***Operating Budget:***

An important issue currently being addressed is the Division operating budget. The Division must adhere to Program Operating Procedures (POPs), which set forth the assumptions under which the Program will operate financially. One of the assumptions stated is the Program’s operating budget amount. Although this amount is subject to change, reductions in the size of the loan-servicing portfolio, combined with reduced loan activity in the past two years, dictate reductions in staffing and other operational costs in order to be fiscally responsible. Such reductions have been initiated and are being implemented at this time. As part of its business and strategic planning, Division management is embarking on a review of staffing to determine actual needs for the next 3 to 5 years.

The Program’s *target* operating budget over the next three years is anticipated to be:

2003-04 <sup>14</sup>	2004-05 <sup>15</sup>	2005-06 <sup>16</sup>	2006-07 <sup>17</sup>	2007-08 <sup>17</sup>
\$18,000,000	\$16,000,000	\$15,000,000	Pending	Pending

***Chart 13: Target budget for Program Operating Procedures.***

The 2003-04 figures are based on the December 2003 POP’s. The 2004-05 figures is based on the projected ending POP’s figure of \$17.2 million, less savings from changes being instituted in the first half of the 2004-05 FY that will have some impact on the last half. Other significant program operating changes will not occur until the last half of the 2004-05 FY and first half of the 2005-06 FY, so will have no impact until the end of the 2006-07 FY. Therefore, the following years will be more accurately projected upon the next update of this plan when the zero-based budget analysis and other measures to improve cost efficiency have been completed; however, we could expect to see a maintenance level of approximately 50 basis

<sup>14</sup> As per Program Operating Procedures dated December 30, 2003.

<sup>15</sup> A conservative estimate based on actual budget figures through March 31, 2004, estimates for the remaining months in the FY, and a reduction for the closure of two District Offices in the first half of the 2004-05 FY.

<sup>16</sup> Pending a zero based budgeting process and savings from business process reengineering.

points of the portfolio balance reached by the end of the 2006-07 fiscal year due to Program efficiencies through automation and restructuring.

Assumptions made to determine the 2004-05 projection include:

- Ventura and Fairfield Offices will close during the first half of the 2004-05 FY. This will result in a savings of approximately \$703,000 over a one-year period, or \$450,000 for the remainder of 2004-05. There will be some additional peripheral savings involved, such as decreasing the workload in Personnel and ISD, but the impact is difficult to determine at present.
- There will be no new Farm and Home funded personnel hires in support Units (such as the Law Division, ISD and Personnel). This figure could be lower, if a proportionate reduction is seen in staffing of these Units as Farm and Home staffing, portfolio size and loan volume reduces.
- Federal legislation to expand the use of QVMB funds does not pass.
- Savings will be realized by changing janitorial services from DGS to a non-profit agency (approximately \$300,000 per year), and parking lot services from DGS to CDVA (approximately \$100,000 per year).

## Section 2: MARKETING ANALYSIS

### Customer base

Cal-Vet loan customers are those veterans who meet the definition of a “veteran” as per Section 980 of the Military and Veterans Code, wish to purchase a home in the State of California, and meet the requirements of the funding sources described in the previous section.

According to USDVA statistics, there have been more than 42 million men and women who have served during wartime periods. Approximately 80% of these served during the four major conflicts of the 20<sup>th</sup> century. In the present century, there are about 24.8 million veterans living in the United States and the Commonwealth of Puerto Rico, including 4 million Korean Conflict veterans, 8.1 million Vietnam Era veterans, and 2.2 million Gulf War veterans, with a median age of 58.4 years. About 5.8 million veterans served during peacetime, and about 20% of total veterans are under 45 years of age. There are approximately 2.2 million veterans living in California, and these veterans are considered our customer pool. In fact, nearly 25% of all living veterans reside in California, Florida and Texas.

Veterans have been shown to fare better in education, income and employment than the general non-veteran population (only 12% of male veterans age 20 or older had not graduated from high school compared with 18% of male non-veterans, and personal income is higher for veterans than male non-veterans with a median income of \$28,800 for male veterans as compared to \$26,400 for non-veterans). This would infer that veterans could make more stable purchasers with greater ability to meet their loan obligation than non-veteran homebuyers.

Cal-Vet has provided home loans to more than 415,000 veterans since inception of the program, and as of December 31, 2003, there were 20,169 Contracts of Purchase outstanding with a remaining principle balance of \$1,578,275,000, and the Department had approximately 815 pending applications for Contracts of Purchase in the amount of \$137,919,000. Chart 14 below shows the history of funded loans over the last six fiscal year. Chart 15 on the following page is a snapshot of the portfolio by service period as of April 30, 2004.

	<u>FY 1998/99</u>	<u>FY 1999/00</u>	<u>FY 2000/01</u>	<u>FY 2001/02</u>	<u>FY 2002/03</u>	<u>FY 2003/04</u>
Loan Amount	\$255,533,982	\$610,723,633	\$469,119,138	\$159,086,298	\$183,571,060	\$407,724,000
# Loans	1,607	3,478	2,752	954	988	1,942

*Chart 14: Funded loans FY 1999-2004.*

Eligibility Period	# of Loans	%	Loan Balance	%
WW II 12/7/41 -- 12/31/46	657	3	\$ 28,767,100	2
Korea 6/27/50 – 1/31/55	1,149	6	58,687,501	3
Svc in Vietnam 2/28/61 -- 8/4/64	97	1	13,234,466	1
Svc in Vietnam 8/5/64 – 5/7/75	14,864	77	1,032,165,319	66
Gulf War 8/2/90 – Still Open	1,862	10	355,494,227	23
Campaign / Expeditionary Medal	162	1	28,315,256	2
Peacetime 5/8/75 – 8/1/91	207	1	36,395,690	2
Other	239	1	9,241,896	1
<b>TOTAL</b>	<b>19,237</b>	<b>100</b>	<b>\$ 1,562,301,455</b>	<b>100</b>

*Chart 15: Breakdown of the portfolio by service period, as of April 30, 2004*

Cal-Vet management continues to study demographics and the changing needs of veterans to determine how best to utilize the Program's resources.

### **Program Competition and Advantages:**

Cal-Vet's competition includes private lenders, institutional lenders (such as banks and credit unions), and other Governmental lenders (such as CalHFA). Although the Cal-Vet program can offer insurance and other benefits superior to other lenders, it must maintain an interest rate that is lower in order to be competitive.

Marketing efforts have traditionally included "selling" the overall Cal-Vet package – low interest rates, personal service and insurance benefits that are superior to those found in the marketplace. Advantages include:

- Below-market interest rates
- Loans up to \$333,700
- 100% VA Home Loan (\$240,000 maximum)
- Superior insurance programs
- Fast, efficient loan processing
- On-line application and prequalification
- Direct lender and servicer (loans are not resold)

Rates in the conventional market for fiscal year 2004 were averaging 5.4% - 6.3%<sup>17</sup>. During the first half of fiscal year 2005, rates were averaging 5.85% – 6.12% (as of August 2004). Cal-Vet adjusted its rates effective June 1, 2004, to 5.50% on Unrestricted funds, 4.95% on QVMB funds, and 5.10% on QMB funds. Rates will continue to be monitored closely in order to pace the market and maximize opportunities to reduce negative carry while still offering below market rates according to interest rate setting methodology approved by the Veterans Board and Finance Committee in 1999. The chart attached as Appendix 2-a reflects the Cal-Vet interest rate history.

Required down payment amounts run from 0 to 3%, depending on type of loan guarantee or mortgage insurance. Loans guaranteed by the USDVA either have a 2% down payment for a

<sup>17</sup> According to Freddie Mac Mortgage Market Survey May 27, 2004.

full \$333,700 loan, or no down payment requirement as long as the loan amount does not exceed the maximum USDVA guarantee amount of \$240,000. Loans insured through a private mortgage insurance company require a 3% down payment. Three programs are offered (USDVA guaranteed, private mortgage insurance, or loan-to-value ratio under 80%), as shown in Appendix 2-b.

### ***Marketing Targets:***

Marketing will be geared towards targeting specific groups in order to use funds that are in the greatest supply:

- *Vietnam era veterans* whose eligibility will be expiring within the next few years. Our largest source of funding is QVMB. In order to maximize funding, we will be making a push to attract as many Vietnam era veterans (pre-1977) to the program as possible while they can still take advantage of these funds. In the meantime, the Department will continue to work with the four other states that have QVMB housing programs to pass federal legislation to remove the 1977 service limit on QVMB funds.
- *First-time homebuyers* who can take advantage of QMB funds if they meet requirements. The Department will be petitioning the California Debt Allocation Committee for additional allocation of QMB funds, and plans to target this market so the allotted amount can be funded within 42 months (preferably within 12 months) of receipt of authority. We expect to file the petition in July 2004, and would expect a response by September 2004. The Department will only request an amount it believes it can use within 12 – 24 months.

Although the number of veterans eligible for QVMB monies will be decreasing each year, we expect through a focused marketing effort to be able to maintain the current funding levels. Sales goals over the next four years are as follows:

<b><i>Dollars Funded</i></b>	<b><i>2003-04</i></b>	<b><i>2004-05</i></b>	<b><i>2005-06</i></b>	<b><i>2006-07</i></b>
<b><i>QVMB</i></b>	\$100,000,000	\$ 100,000,000	\$ 100,000,000	\$100,000,000
<b><i>QMB</i></b>	\$ 18,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000
<b><i>Unrestricted</i></b>	\$290,000,000	\$ 200,000,000	\$ 150,000,000	\$150,000,000
<b><i>TOTAL</i></b>	<b><i>\$408,000,000</i></b>	<b><i>\$315,000,000</i></b>	<b><i>\$265,000,000</i></b>	<b><i>\$265,000,000</i></b>

***Chart 16: Sales Goals***

Figures for the 2003-04 FY are based on actual data through April 30, 2004, with a further projection for the remaining two months of the year. QMB figures for 2004-05 through 2006-07 are based on projections by the Bond Finance Unit according to the anticipated supply considering remaining funds, prepayment projections, and loan origination projections. The Unrestricted projections are based on the same, with a slight adjustment to 2004-05 because it will take some time to settle the interest rate at the correct level to slow unrestricted loan activity to a level where demand for Unrestricted funds does not outpace supply. These projections will be adjusted as needed through the Plan review/update process.



## **MARKETING OBJECTIVES:**

The Program will budget \$394,000 for the 2004-05 FY (see Exhibit 2-c) to accomplish its marketing objectives. Program marketing objectives include:

- Maximize QVMB funding by targeting Vietnam era veterans who remain eligible through 2007.
- Reach sales goals of \$315,000,000 for the 2004-05 fiscal year.
- Confirm a marketing budget by July 31, 2004 (estimated at \$394,000).
- Maintain demographics and track trends.
- Supply Marketing Unit personnel for presentations and to work with sales managers to establish regional promotional schedules (assuming that Field Offices are relieved of routine loan processing).
- Maintain promotional materials and work with ISD to maintain the Program's website.
- Maximize use of the Website to publicize Cal-Vet product information and comparisons to other loan programs.
- Maintain communication networks with Cal-Vet stakeholders to distribute timely program updates and information.
- Take advantage of the Veteran Service Organization networks to advertise and promote the Cal-Vet Loan Program.
- Promote intradepartmental communication through Cal-Vet newsletters and activities.
- Develop meaningful reports that provide management a tool for evaluation and measurement of progress and achievement.
- Streamline the approval process by Division and CDVA management.
- Provide training and develop strategic marketing planning for Farm & Home management and participating Executive Staff to assure united Department commitment and coordination.
- Train all staff involved in marketing so they are both knowledgeable about the Program, as well as sales techniques.
- Work with Business Services and Accounting to streamline and document the processes and procedures to implement marketing strategies and campaigns.
- Establish a strategic marketing committee that meets bi-weekly and includes the Division Chief, Field Operations Manager, Loan Processing Manager and Administrative Services Unit Manager.
- Develop strategies to increase on-line applications and mortgage broker participation, and study the possibility of partnering with the CVSO's to enhance Cal-Vet's local presence.

Further information regarding product/service offerings, profiles of target markets, marketing strategies and sales plans can be found in the 2004-05 Cal-Vet Marketing Plan.

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## SECTION 3: FINANCIAL (BUSINESS) PLAN

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### **PROGRAM STATUS**

#### **Operating Procedures:**

The Program operates in accordance with statutes set forth in the California Military and Veterans Code, California Code of Regulations, Title 12. Military and Veterans Affairs, and other State and federal laws surrounding the purchase of real estate and loan servicing. Staff process and service the loans in accordance with the Cal-Vet Operations Manual, desk procedures (both formal and informal), USDVA procedures, and policies set by the California Veterans Board.

The Program's financial side (concerning Revenue Bonds) is operated in accordance with Program Operating Procedures (POP's), which set forth the business assumptions used to determine cash flows and upon which the bond market can rely. The POP's are maintained on file with the State Treasurer's Office, as the Department's trustee.

#### **Personnel**

The Division has maintained a dedicated, loyal staff; many have worked for the Program for over 20 years. Although there was a Budget Change Proposal authorized in 2000 for the addition of approximately 41 staff in the Program Units, staffing has reduced on the Division side to 1998-99 levels (a reduction of approximately 22%) in accordance with the reduction in portfolio size and new loan activity. The Program expects to lose additional positions through attrition, which will help meet Program budget goals.

Budget goals will also be met through the process of allocating funds for positions where duties may be shared between General Fund and Farm and Home activities. For instance, approximately \$600,000 was paid to Farm and Home over the 2002-03 fiscal year through this process.

Further discussion of personnel resources can be found in Section 1 of the Strategic Business Plan.

#### **Bond Ratings**

In July 2003, Standard & Poor's lowered the ratings of the General Obligation Bonds (GOs) and the Revenue Bonds to "A" from "AA-", reflecting the change in the States GO rating of "BBB" from "A". However, it was also noted that these ratings continue to reflect the overall credit strength of the Farm and Home Building Fund of 1943 (Fund), which funds the Farm and Home Purchases program. The credit strengths include: 1) high quality contracts and

investment securities, 2) successful implementation of changes resulting in less risk of losses while sustaining long-term viability and 3) resiliency of cash flow projections. Although interest rate mismatch between the fund's assets and noncallable GOs remains to be a credit weakness, the outlook of the Fund anticipates the assets and revenues to remain stable and sufficient to withstand programmatic losses over the longer term. To get an indication of previous bond ratings, refer to Appendix 3-a, which shows bond ratings for GO and Revenue bonds for the past seven years.

Fitch affirmed and removed California from "rating watch negative" in August 2004. The rating watch removal affected California BBB rated General Obligation Bonds, and A-rated \$1.4 billion General Obligation veterans bonds.

General Obligation bonds are backed by the full faith and credit of the State of California, and have a claim against the General Fund, so they are affected by the overall rating of the State of California. Home Purchase Revenue Bonds are special obligations payable solely from the Veterans Farm and Home Building Fund of 1943 and the Veterans Debenture Revenue Fund (a fund established for the maintenance of a bond reserve account), and are the true reflections of how well the Program is operating from a rating standpoint. Bond ratings are an important measurement of Program performance.

### **Loss Protection**

Program assets (contracts) are protected through various forms of insurance. Losses through loan defaults are protected through primary mortgage insurance and to some extent, through life and disability coverage. The physical properties are protected through Fire and Hazard and Disaster Indemnity coverage. The Program will continue to carry these types of coverages over the next 3 – 5 years, although contracts will expire within that time and carriers will be replaced through the state's procurement process. The procurement process will establish whether or not any beneficial changes to the insurance products can be obtained. It is anticipated that no new staff will be required to manage the loss protection programs.

### **Loan Insurance:**

Prior to 1988, contracts of purchase were not insured or guaranteed by the United States Department of Veterans Affairs (USDVA), or any private primary mortgage insurer. The Department took steps to reduce program risk, and in 1998, the Department was approved as a guaranteed lender by the USDVA. The Department subsequently obtained primary mortgage insurance for certain prior and all future contracts of purchase not guaranteed by the USDVA with loan-to-value ratios above 80%. As of April 30, 2004, 1,220 (6.3% of the portfolio) have USDVA guarantees, and 4,204 contracts (21.8% of the portfolio) are insured through primary mortgage insurance.

The Department collects a funding fee of 1.25% up to 3% of the loan amount based on the loan-to-value ratio to offset the cost of the guaranty or coverage.

Because of the low number of REO properties and the accelerated market, the Department has only had to file one claim since obtaining loan insurance, and received \$113,000 in proceeds from USDVA covering the remaining contract balance and costs.

The loan insurance “caps” our losses, and we are able to hold fewer funds in reserve.

### **Property and Life and Disability Insurance:**

The Military and Veterans Code (M&VC) and/or Department policy have required the contract purchaser to maintain certain insurance coverage with respect to the property. The Department specifies the amount, type and conditions of the coverage. Coverage is provided either by the Department, or by insurance companies selected by the Department. Premiums are collected with the contract holder’s monthly payment. Insurance programs are as follows:

- *Fire and Hazard Coverage:* The Department self-insures for fire and hazard losses up to a certain deductible (\$1.5 million per occurrence, or \$13 million per policy year). Above the deductible, a master policy provided by commercial insurers provides \$50 million in excess coverage. Coverage is maintained on a guaranteed replacement cost basis for homes, and an actual cash value basis for outbuildings. There is a \$250 deductible per loss, and the premium currently is \$0.22 per \$100 of replacement cost. Claims are processed through a third party administrator (G.A.B.). Condominiums with master homeowners association policies and mobile homes are not covered, and must provide evidence of coverage annually.
- *Disaster Indemnity Coverage:* The Department provides coverage for earthquake and flood through its disaster indemnity plan. The deductible for flood losses is \$500 and the deductible for earthquake damage is \$500 or 5% of the amount of loss, whichever is higher. The cost of coverage is \$0.80 per \$1,000 of replacement cost. Loss claims are adjusted by G.A.B. The Department’s deductible is \$4 million per occurrence, and excess coverage is provided by a group of commercial carriers for a total of \$50 million. The value of the indemnity fund as of June 30, 2003 was \$15,771,597.
- *Life and Disability Coverage:* Prior to 1996, the Department self-insured from the 1943 Fund. After a period of significant losses incurred by the Fund, the Department replaced its self-insured program (other than for approximately 450 contract purchasers) with a fully insured program through Pacific Life and Annuity Company effective February 1, 1998. Effective February 1, 2003, the Pacific Life plan was replaced by a plan through Standard Insurance Company. All contract holders under the prior plan were transferred to the new plan.

The life insurance portion of the Standard policy remains basically the same as the previous plan with a five-year rate guarantee. The Standard’s plan reduced the administrative charges for both the insured and self-insured programs, and increases disability benefits by expanding coverage for those who are unable to perform Activities

of Daily Living, or suffer from disabilities due to accidents. Standard also offered additional disability options to our contract holders that could cover loan payments for the life of their loan or up to the age of 70 (with the exception of disability option 1A, where benefit payments end at the age of 65), whichever comes first.

### **Delinquent Accounts**

The Division has consistently maintained a delinquency and foreclosure rate lower than FHA and USDVA, as described on Pages 12-13 of this report. The Program has realized a gain on the sale of REO properties, and REO's have not been a drain on the program for several years. Success in this area can be attributed to the economy, as well as efficient processing in partnership with the real estate industry. We anticipate that we will continue to maintain rates that are below FHA and VA over the next 5 years, and that loan loss reserves required will not exceed \$12 million over the next 2 years. Additional resources to maintain these objectives will not be required.

### **Contract Interest Rates**

With conventional loan rates running uncommonly low, Cal-Vet chose to maintain competitive rates although below that needed to cover bond expense (currently 4.95% QVMB, 5.10% QMB, 5.50% Unrestricted). The target is to increase rates on Unrestricted to 6.0% and QVMB and QMB rates to at least 5.25% by the end of the 2004 calendar year (subject to market rates and costs). The overall target to cover bond and operational expenses is 6.0% or better for unrestricted, while maintaining a lower rate on QVMB, which acts as an incentive for pre-1977 veterans to apply.

### **Fund Position and Information**

Because of the low loan rates, as well as high prepayments, reduction in Fund equity was seen as of the 2002-03 fiscal year, and is of concern. It is incumbent upon the Division to take steps to reduce the high negative carry it is experiencing and keep the reduction in equity from becoming a trend. Working with its quantitative consultant, the Program will explore opportunities to refund or redeem high cost bonds, as well as increase interest rates as the market rises to meet the target rate needed to cover the cost of bond debt. Chart 17 shows the status of fund equity over time. Maximizing investment opportunities, increasing new loan rates, and redeeming higher cost debt should allow the program to stabilize over the next 18 – 24 months.

1999	2000	2001	2002	2003	2004
\$ 269,569,000	\$ 273,437,000	\$288,046,000	\$293,921,000	\$278,273,000	\$242,986,000

*Chart 17: Fund equity comparison over the past 6 years, as of June 30. Data source: Accounting Office.*

Between fiscal years 2002 and 2003, total assets of the Program decreased from 3.3 billion as of June 30, 2002 to 2.82 billion (a decrease of over \$483 million – 14.62%). This

reflected an increase in cash and investments, decrease in net receivables, a decrease in all other assets, a decrease in bonds payable and other payables, and a decrease in fund equity as follows:

	2002	2003	% Change
<b>Assets:</b>			
<i>Cash and Investments</i>	\$ 890,462,000	\$ 1,002,343,000	12.56%
<i>Receivables --Contracts</i>	2,341,920,000	1,756,379,000	-25.00%
<i>Other Rec.'s and assets</i>	71,329,000	61,907,000	-13.21%
<b>Total</b>	\$ 3,303,711,000	\$ 2,820,629,000	-14.62%
<b>Liabilities:</b>			
<i>Bonds Payable</i>	\$ 2,937,584,000	\$ 2,482,695,000	-15.49%
<i>Other Payables &amp; Liab's</i>	72,206,000	59,661,000	-17.37%
<b>Total</b>	\$ 3,009,790,000	\$ 2,542,356,000	-15.53%
<b>Fund Equity:</b>	\$ 293,921,000	\$ 278,273,000	-05.32%

*Chart 18: Fund equity comparison with asset/liability breakdown. Comparison information between 2003 and 2004 is not yet available.*

The Program has limited sources of revenue consisting of interest revenue from loan contracts, non-purpose investments, and other revenue from operations. The Program's main source of revenue is from interest on contracts. Revenue generated from interest on contracts has been decreasing steadily over the past few years due primarily to high prepayments. Interest revenue from contracts in 2001-01 was \$179,755,000, decreasing to \$166,086,000 in 2001-02, and further reducing to \$140,036,000 in 2002-03.

Expenses are incurred from bond debt service, personnel, and other operating costs. Interest expense figures are derived by calculating the interest payments the Program expects to incur for all outstanding bonds during the fiscal year. The estimates are taken from bond amortization reports, the accounting office, and cash flow analysis from the Bond Finance Division. The interest expense for FY 2001-02 was \$185,000,000 million compared to \$175,000,000 million for FY 2002-03.

The Program makes interest payments on a semi-annual basis for new bonds and quarterly payments for old bonds. However, for projecting monthly profit and loss, interest payments are accrued on a monthly basis. Total bonds payable as of June 30, 2003 were \$2,501,160,000, as compared to June 30, 2002 of \$2,961,875,000. Annual interest on G.O. bonds ranges from 3.6% to 11%, due in varying annual installments through 2032 (subject to redemption provisions). Annual interest on Revenue bonds range from 4.05% to 6.15%, due in varying annual installments through 2028 (subject to redemption provisions). The following is a summary of debt service requirements for the next 5 years and to maturity:

<i>Fiscal Year (as of June 30)</i>	<i>Principal</i>	<i>Interest</i>
<b>2004</b>	\$ 156,205,000	\$ 146,756,000
<b>2005</b>	92,365,000	139,346,000
<b>2006</b>	104,125,000	131,642,000
<b>2007</b>	115,265,000	123,333,000
<b>2008</b>	110,655,000	114,319,000
<b>2009-2013</b>	560,175,000	450,979,000
<b>2014-2018</b>	445,200,000	310,499,000
<b>2019-2023</b>	432,780,000	186,054,000
<b>2024-2028</b>	338,085,000	83,038,000
<b>2029-2033</b>	146,305,000	19,679,000
<b>Total</b>	\$ 2,501,160,000	\$ 1,705,645,000

*Chart 19: Debt Service requirement (source: audited financial statements)*

The Department will refund/redeem bonds with lower cost bonds or through unrestricted funds as the opportunity arises. In July 2004, the Department will redeem \$120,000,000 of G.O. bond debt with unrestricted funds to effect a savings of approximately \$6 million per year.

## Budget

The following chart shows the Program's operating budget for the past two years, and current year to date. Direct expenses are those applied to the Farm and Home Purchases Division (including Bond Finance), and indirect expenses are those that apply to support divisions that maintain both Farm and Home and General Fund financed positions. The Program plans to take control of its budget by zero-basing, and determining the appropriate budget for projected loan volume and portfolio size. Unit managers will be responsible for staying within 5% of their budgets.

<i>Overhead</i>	<i>2001-02 (Actual)</i>	<i>2002-03 (Actual)</i>	<i>2003-04 (Projected)</i>
<b>Personnel (Direct)</b> <sup>18</sup>	\$ 8,474,564	\$ 9,084,301	\$ 8,528,227
<b>OE&amp;E (Direct)</b>	\$ 6,648,563	\$ 9,013,130 <sup>19</sup>	\$ 5,987,698
<b>Personnel (Indirect)</b>	\$ 4,831,774	\$ 4,800,281	\$ 4,615,183
<b>OE&amp;E (Indirect)</b>	\$ 1,891,491	\$ 982,853 <sup>20</sup>	\$ 1,690,195

*Chart 20: Operating Budget comparison*

<sup>18</sup> Workers' Compensation premiums for both direct and indirect personnel are charged to Farm and Home Administration, which means that the personal services for the direct costs are overstated, and understated for indirect costs.

<sup>19</sup> The increase in direct OE&E costs between 01-02 and 02-03 is the result of the increase in pro rata (about \$2,409,000), which is also charged to Farm and Home Administration.

<sup>20</sup> The decrease in indirect OE&E costs from 01-02 to 02-03 is the result of: 1) tort payments made in 01-02 that were charged to the Legal Office (\$137,000), and 2) Bond Finance had consulting fees of \$859,000 in 01-02 and only \$355,000 in fees for 02-03.

The operating budget as reported in the Governor's budget is not the same as that in the Program Operating Procedures. The Annual Farm and Home Budget simply considers the straight costs of operating the Program. The Program Operating Procedures budgeted amount is a "net" figure, taking into consideration expenses and revenues generated that offset certain expenses (such as servicing and processing fees). The projected budget for the Program Operating Procedures can be found in Section 1 of the Strategic Business Plan.

## **FINANCING PLAN**

### **Expected Transactions/Results:**

The Department expects to complete the following transactions during the 2004-05 Fiscal year:

- QMB Program: Unexpended proceeds call of \$30,000,000 in July 2004 in order to reduce negative carry.
- QVMB Program: Excess revenue call of \$120,365,000 (primarily from unrestricted funds) in July 2004 in order to reduce negative carry.
- Unrestricted Program: GIC bidding in September and/or October 2004 in order to increase revenues by placing up to \$150,000,000 in higher yield investments.
- State's Commercial Paper Program: The Department will use commercial paper transactions three times per year for maturity refunding purposes. The schedule for the 2004-05 fiscal year is as follows:
 

○ October 1, 2004:	\$37,275,000
○ February 1, 2005	17,270,000
○ April 1, 2005	<u>16,000,000</u>
Total	\$70,545,000
- G.O. bond sale: The Department will transact a G.O. Bond sale in February or March 2005 to refund commercial paper in order to realize approximately \$120,000,000 in new lendable proceeds.

These transactions, combined with actions to increase revenues and reduce expenses, should result in the following expectations by fiscal year:

Transaction Year (FY)	Financial Expectations
<b>2003-04</b>	\$40,000,000 loss (based on current Financial Statements)
<b>2004-05</b>	Reduce loss by one-third (to \$27,000,000)
<b>2005-06</b>	Reduce loss by half (to \$14,000,000)
<b>2006-07</b>	Reduce loss by half again (to \$7,000,000)
<b>2007-08</b>	Be profitable



***Financial Projections/Performance:***

Attached as Appendix 3-b is the Financial Statements and Notes for the years ended June 30, 2002 and 2003. Year-end cash flows for 2003 are included; cash flows for 2004 are not yet available but will be included with the next Plan update.

***Assumptions:***

A number of assumptions were used in estimating sales, revenue and expense projections:

- **Funding availability:** See the Resource section of Section #1: Strategic Plan. Further, the assumption is that existing law affecting QVMB will not change, and the pool of eligible veterans for QVMB funds will decrease significantly by 2007.
- **Bond Interest Costs:** Costs were based on information from the 2003 Financial Statements.
- **Interest rate Assumptions:** Interest rates charged to veterans who obtained loans prior to January 1, 1999 remain constant at 6.95%. Effective January 1, 1999, three different rate structures were established for loans based on military/bond eligibility, which can be changed rapidly and vary with the market and cost of bond debt/operations.
- **Insurance Programs:** Targeted to operate at break-even (except self-insured disability cases), with minimal loss charged to operations.

**NEWLY EFFECTIVE AND PENDING LEGISLATION**

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***New Legislation (effective 1/1/04):***

AB 1036 passed and became effective January 1, 2004. This bill initiated five changes to the Cal-Vet program:

- Increased the maximum Farm Loan from \$350,000 to 150% of the maximum Cal-Vet Home Loan (\$500,550 based on present maximum).
- Increase in the maximum Mobile Home loan (in Parks) from \$70,000 to \$125,000.
- Permits 100% loans for veterans eligible for the VA Guarantee.
- Added permissive language to the M&VC for down payment assistance through a deferred-payment second loan program (up to 3%).
- Added permissive language to allow Home Improvement Loans to be funded behind existing mortgages.

The impact of the first four items above is to increase application volume by making financing more attractive and competitive with USDVA. As of May 2004, we are seeing an increase in the number of USDVA guaranteed loans.

The impact of the last item above will not be known until (if) the programs are implemented. However, it is anticipated that an increase in Home Improvement Loan applications will be seen.

***Pending Legislation:***

*State:*

***SB 385 Morrow: Farm and home purchases: life or disability insurance***

This bill would prohibit the life and disability insurance reserves in the Cal-Vet loan program from being more than 25% in excess of actuarial requirements plus the reasonable contingency reserve.

This bill has no significant impact on the program.

***AB 2266 Veterans Committee***

Existing law provides for farm and home purchase benefits for qualifying veterans under the Veterans' Farm and Home Purchase Act of 1974 and subsequent acts. It authorizes the Department of Veterans Affairs to assist veterans in acquiring homes and farms by generally providing that the department may purchase a farm or home, which the department then sells to a purchaser, as defined. Existing law defines "home" to include, among other things, a condominium and a mobile home. This bill would expand the definition of "home" to include cooperative housing, as defined.

If this bill passes, it will provide an affordable housing option, which may result in more applications for purchases in high-cost areas or by younger veterans and first time homebuyers, thereby increasing the use of QMB funds.

***AB 2267 Veterans Affairs Committee – Veteran benefits: preference groups.***

Under the Farm and Home Purchase Act, the Department of Veterans Affairs establishes preferences for granting benefits to veterans who wish to acquire farms and homes. Existing provisions of the act give first preference for benefits to wounded or disabled veterans, as defined, and give second preference for benefits to veterans and their unremarried spouses who meet certain qualifications, including a qualification of 6 months residency by the veteran in California immediately preceding the veteran's entry into active duty. This bill would shorten the requirement to 3 months residency immediately preceding the veteran's entry into active duty.

This bill has no impact on the Program over the next 5 years.

**AJR (Assembly Joint Resolution) 36**

This measure memorializes the President and Congress to enact legislation (HR 1742 and S. 1349) that would revise provisions of the Internal Revenue Code so that Qualified Veterans Mortgage Bonds may be issued by a state to fund home purchase and home improvement loans to certain additional veterans.

This Resolution has no impact on the Program. However, the legislation it attempts to facilitate would have the effect of extending the pool of veterans eligible for funding through QVMB to include post-1977 veterans (see HR1742/S1349 below).

*Federal:*

***HR 1742 and S 1349 Kletzka and Herger***

One of the primary issues facing the program at this time is the federal limitation on the use of Qualified Veterans Mortgage Bonds (QVMB), which have been the primary source of funds since the inception of the Program. Federal law specifies that these funds can be used only for veterans with service prior to January 1, 1977 who apply within 30 years from their release from active service. This drastically limits the number of veterans who remain eligible, and excludes recent war veterans. Although we have funds that are not subject to the federal law and can be used for current era veterans, those funds are limited. Without a change in the federal law, the Program will have to rely primarily on unrestricted funds and will only be able to provide benefits to a limited number of veterans unless alternative funding and ways of doing business that significantly reduce cost of operations are identified.

Currently, HR 1742 is before the United States Congress, which would change the law requiring military service before January 1, 1977, and make many more California veterans eligible for the Cal-Vet Loan Program. The Senate version of the bill is S 1349. California is working with the other four states that have veterans housing programs (Alaska, Oregon, Texas and Wisconsin) on strategies to facilitate passage of the bill, and the Department's efforts have received the support of the Governor of California and legislature.

This Strategic Business Plan anticipates no change in federal law. However, if the law does pass, it will allow us to maximize our funding sources. We would be able to use our largest source of funds (QVMB) for recent war veterans, thereby releasing unrestricted funds to be used for those veterans who can no longer qualify for QVMB or QMB funds. The Program would be in a position to fund most veterans who apply, and portfolio growth would be attainable.

***Legislative Proposals:***

As the Program is reviewed and alternative sources of funding or ways of doing business are identified, legislative proposals will be submitted if changes in statute are needed to implement the changes.

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## SECTION 4: BUSINESS CONTINUITY SUMMARY

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Continuity planning is critical in today's atmosphere of a variety of threats – from a shortage of trained staff, to power shortages, to acts of terrorism. The Program must be prepared to carry its business forward in the face of resource shortages or disaster and serve its veteran customers in a reasonable manner. The Department has charged its Information Services Division (ISD) with the responsibility of maintaining and Organizational Recovery Plan.

The Program is nearing completion of a “*CalVet Business Continuity Plan*” (BCP) that identifies critical processes for operational continuity and recovery strategy. It addresses new business practices, changes in technology, and potential for wide-area disasters, with consideration given to interdependencies among financial system participants as well as infrastructure providers. The BCP will take into consideration the reliance on other government agencies, third-party providers, key suppliers, or business partners and their ability to resume operations in a timely manner to ensure critical services can be restored within acceptable timeframes based upon the needs of the Program. Each Program Unit has established the priority of work functions and individual plans for recovery.

The continuity of operations relies on the Program's ability to operate off-site if necessary and shift resources as needed. In general, if the Headquarters building becomes inoperative, the Department will acquire an off-site work place in Sacramento that will replace Headquarters until the building can be occupied. Headquarters workload will also immediately be shifted to the Field Offices, or if Field Offices are disabled, workload can be shifted to other unimpacted Field Offices or Headquarters.

If the situation shuts down the MITAS system for a few days, certain functions can be performed manually or delayed. If longer, a workload shift will be required, and in extreme situations, a moratorium on receipt of new loan applications may be necessary so efforts in this instance can be directed to completing processing on loans in the pipeline, and servicing existing loans with emphasis on cash flow activity (payment receipt and application). Cashiers (and ISD through its Operational Recovery Plan) has a written plan for a means to record payments "manually" and get the money to the bank, and checks are maintained off-site and can be retrieved to continue issuing funding checks.

In its Operational Recovery Plan, ISD also addresses the maintenance of operational status of the MITAS database server and means of minimizing disruption of CalVet loan processing in the event of operational failure. Strategies have been developed to meet operational needs should there be equipment/power/telecommunications failures, such as renting a generator for back-up power, or maintaining a back-up MITAS server at the Department's alternative site in Yountville. If the database fails or information is corrupted, data can be restored via back-up tapes and discrepant data would be analyzed through reports. Provisions have been made for staff to work overtime in order to make up for expected down time, and to make appropriate corrections to the MITAS system.

ISD has established various support teams to assist during the failure and operational recovery. A MITAS system support team was established and is responsible for software and hardware as well as providing programming support during operational recovery. A network support team was established to support the Department's critical applications and services at its Headquarters data center, which serves as the focal point for all operational recovery. A facility support team was established to provide emergency response, facilities, operations and business services support for the Department during the recovery process. It is also responsible for ensuring that fiscal or legal integrity of State operations remains intact. Lastly, a telecommunications support team was established to oversee both the recovery and support of the Agency's voice communications, phone systems, and services. ISD also maintains contact lists of vendors who provide support to the Department's systems.

If records are destroyed, we are able to recover essential information. Fortunately, much information regarding the property and initial loan transaction is recoverable through back-up electronic data storage, public records (such as the County Recorder's Office and Assessor's Office), and through Cal-Vet's insurance adjustment and insurance companies and records kept with the Program's quantitative consultant and auditor.

In addition to the threat of a physical catastrophe affecting the Program, the Program must also plan for the loss of and competition for trained and skilled staff. Approximately 35% of the State's workforce will retire within the next 5 years, and approximately 40% of those are in management positions. We must make sure we are developing staff to move into management positions, and have training programs and procedure manuals in place to accommodate a turnover in work force. The work environment must be such that we can attract and retain staff.

The Program has the ability to shift workload and resources to its Field Offices to back-up the Headquarters Units as necessary in the event there is insufficient staff to handle workload volume. We are currently using this option while there is a shortage of trained staff in the Loan Processing Unit and Sacramento District Office. We are able to shift workload to other offices as needed to maintain 30 day loan processing times. The MITAS system allows flexibility in processing or servicing loans from various locations.

The following are actions needed to protect the Program's business processes, customer information, and maintain a stable workforce. Most of these activities are included in Section 1: Strategic Plan objectives of this Strategic Business Plan:

- In order to meet State Administrative Manual (SAM) requirements for duplicate records, the Division embarked on an imaging project to copy contract files onto CD's. Although most information was imaged, the project was interrupted for budget reasons and there was no provision made for imaging new loan files. The Division should complete the project to image existing contract files and new loan files. The data should be backed-up periodically and stored in a location outside of the Headquarters building.

- An Education Committee will be reestablished to assess training needs to develop staff skills, develop cross training program for essential staff, and review our existing employee incentive program.
- Procedure manuals will be updated for all Program areas.
- BCP training for all staff will be provided, and key employees will be involved in the business continuity process as well as training exercises.
- Tabletop/mini drills will be performed annually to test the BCP, and be coordinated with the Department's overall plan and testing schedule.
- Communication planning will be performed, and alternate communication channels to be used during a disaster identified (such as pagers, cell phones, e-mail, two-way radios).
- The Accounting Office will prepare a written Continuity Plan, although informal procedures are in place for manual payment processing and funding.

## **SECTION 5: APPENDIX LIST**

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Appendix 1-a: Organizational Structure Chart

1-b: Operations Function Chart

1-c: Goal/Objective/Action Matrix

Appendix 2-a: CalVet Interest Rate History

2-b: CalVet Programs Offered

2-c: Marketing Budget

Appendix 3-a: Bond Rating History

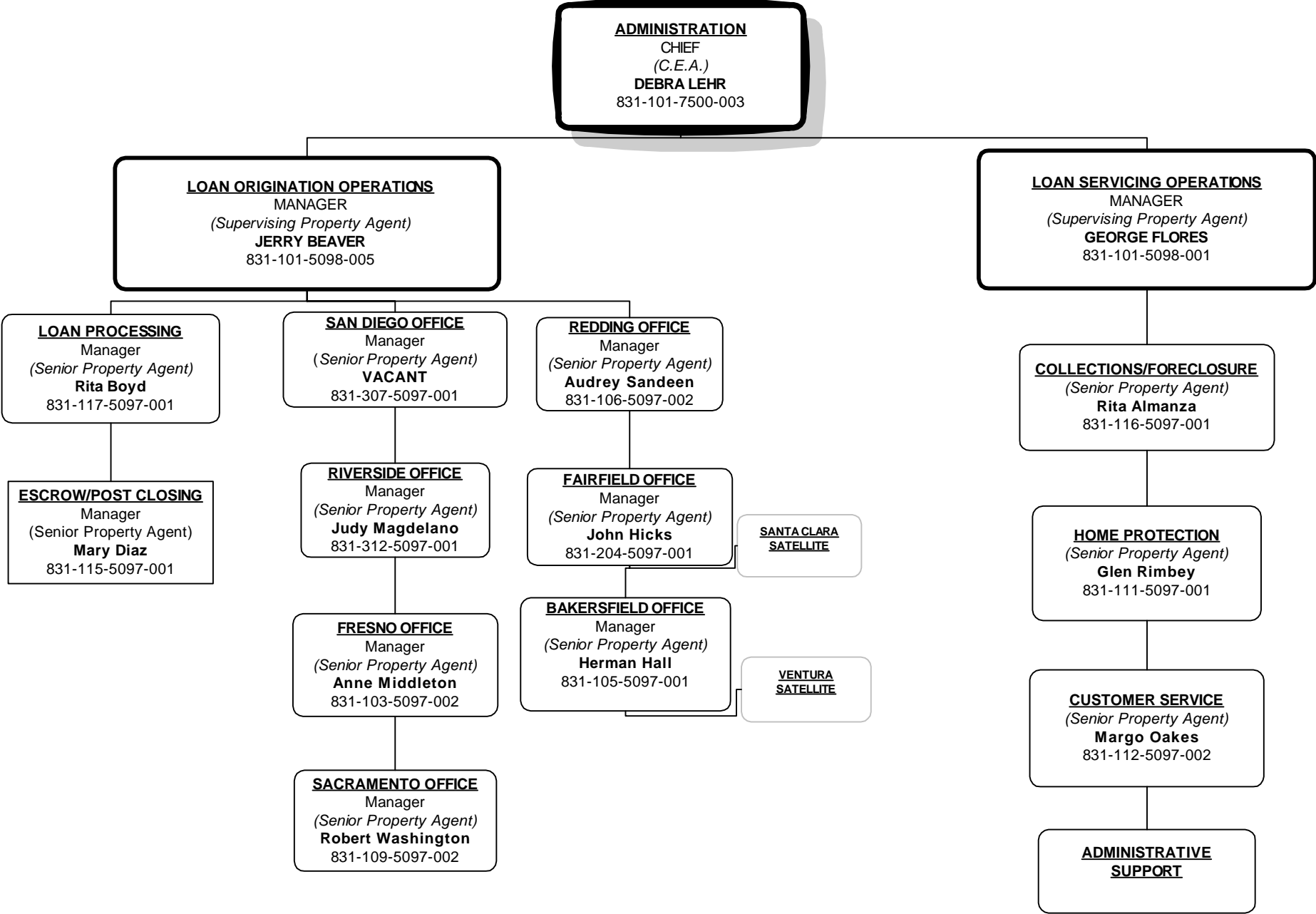
3-b: Financial Statement and Notes for Years Ended June 30, 2002 and 2003

# Appendix 1-a

## Organizational Structure Chart



# CALVET HOME LOAN ORGANIZATION



# Appendix 1-b

## Operations Function Chart

## **FARM & HOME PURCHASES DIVISION FUNCTIONS**

### **ADMINISTRATION:**

Planning  
Operations Oversight  
Budgeting  
Appeals  
Legislative & Policy Matters  
Liaison with Executive Staff, CVB and  
Political Entities

### **FIELD& LOAN PROCESSING OPERATIONS:**

#### ***Field Office Functions:***

Loan Origination Activity  
Data Entry  
Prequalifications  
Receive Loan Packages  
Initial Elig. & Credit Review  
VA Interviews  
Preliminary Denials  
Itinerant Service  
Loan Servicing Field Activity  
Construction and HIL Processing  
Maintain Appraisal Panels  
Back-up Loan Processing  
Community Events  
DRE Classes  
Dessiminate CV Information  
Interaction with Local Boards  
Sales Lead Follow-up  
Mortg. Broker Training/Monitoring

#### ***Loan Processing Unit Functions:***

Process & Underwrite new loans  
Reporting  
Denials & Appeals  
Correspondence  
Loan Processing VMB & e-mail  
Status Checks

#### ***Escrow Unit Functions:***

New Cases Received  
Prepare Loan Documents  
  
Loan Funding  
Escrow Holder Approval  
HUD. Statements  
Credit Report IFB (as ct. expires)  
Credit Report Billing Analysis  
LOF pay't control set-up  
Unapplied Reports  
Process new loan checks  
Due to Loan Holder Disbursements  
File purging  
Escrow VMB & e-mail  
Loan Documents  
Collect Indorsements  
Progress Payments  
Monitoring & Close-out  
Payment Adjustments & Billing  
Payment Adjustments  
Reconciliations of Escrow Accounts  
Manual Billing  
V.A. Packaging  
Escrow Analysis  
New Cases Closed  
900 Letters  
Quality Control  
Contract Modification

### **LOAN SERVICING OPERATIONS:**

#### ***Administrative Support Unit Functions***

Mort. Broker Program  
Staff Education & Development  
Monitor Pipeline  
Internet & Intranet Issues  
Regulations & Legislation  
Operations Manual Maintenance  
Memos and Directives  
Planning

Controlled Correspondence  
CVB and Personnel Liaison  
Special Projects  
Compliance Reports  
Statistics and Surveys  
Demographics  
Contract Management  
PMI Packaging  
Telephone Back-up

#### ***Contract Services Unit Functions:***

General Pay't/Account Issues  
Social Security Tin & 1098's  
Impounds/Escrow Analysis  
Account analysis/resolution  
Property Taxes  
Systems Issues  
10-Day letters  
PIF Close-outs  
Initiate Monthly Payments  
Returned checks  
Correspondence  
Reporting  
SSCRA processing  
VOM & EFT  
Home Improvement Loans  
Address Changes  
Main Files

#### ***Home Protection Unit: (Includes Title Unit)***

Fire & Hazard  
Disaster Indemnity  
Death Claims  
Insured L & D and Self-Insured  
Premium Payments  
Annual Reports  
Insurance Appeals  
Insurance Contracts/Brokers  
Consents to Encumber  
PMI Packaging/Premium Payment  
Paid by Life

Correspondence/VMB/e-mail  
Vesting Changes (Marr./Trusts/Deaths)  
Deed & Demands  
Short-Pay's  
General Assignments  
Occupancy Waivers

#### ***Foreclosure & REO Unit: (includes Collections)***

Bankruptcies  
Action to clear title/Lit. Guarantees  
Work-outs/Repayment Agreements  
PMI/VA Claims & Reporting  
Contract Cancellation & Evictions  
Witness/Mediation functions  
Civil Foreclosures  
Short Sales  
REO Sales/Maintenance  
REO Internet Information  
1099 A/C's  
Correspondence/VMB/e-mail  
Early Intervention  
Repayment Agreements  
Credit Reporting  
Delinquent Account Reporting  
NICC's & Precancellation Letters  
Legal Action Transmittals

# Appendix 1-c

## Goal / Objective / Action Matrix

## ACTION PLAN WORKSHEET

GOALS	OBJECTIVES	ACTION PLAN	TASK OWNER	START DATE	ESTIMATED COMPLETION DATE	ACTUAL COMPLETION DATE	METRICS
1. Maximize QVMB Funding over the next 3 years	1.1 Increase outreach activity to target pre-1977 veterans	1.1.a Identify/analyze marketing segments	George Flores &	1/1/2004	Ongoing		>Track actual expenses against the budget >No. of funding options identified >Loans funded by type >Track interest rates and compare to conventional rates
		1.1.b Maintain a Marketing Plan and Budget	Ron Brand	4/1/2004	7/1/2004	7/1/2004	
		1.1.c Change outdated perceptions regarding service	Ron Brand	Ongoing	Ongoing		
	1.2 Establish a Finance Committee	1.2.a Identify Committee members	John Hanretty	4/15/2004	5/6/2004	5/6/04 (1st meeting)	
		1.2.b Establish the purpose, Chairperson, Secretary and Schedule of the Committee	Committee	5/6/2004	5/6/2004	5/6/2004	
	1.3 Identify alternate funding options	1.3.a Use the Finance Committee as a vehicle for discussion	Weijian Ni &	6/1/2004	6/30/2006		
		1.3.b Work with cfX and Bond Finance to establish feasibility	Debra Lehr	6/1/2004	6/30/2006		
	1.4 Monitor existing funds, rates and market to optimize opportunities	1.4.a Use Interest Rate and Finance Committees as vehicles to discuss market factors and select options	Debra Lehr & Weijian Ni	Ongoing	Ongoing		
		1.4.b Monitor Freddie Mac rates weekly	F & H Admin.	Ongoing	Ongoing		
		1.4.c Produce weekly reports showing status of allocations	Weijian Ni	7/1/2004	Ongoing		
	1.5 Apply for additional QMB funds	1.5.a Prepare justification and supporting information	Weijian Ni	6/1/2004	6/30/2004		
		1.5.b Apply to the Debt Allocation Committee	Weijian Ni	4-Jul	12/31/2004		
	1.6 Facilitate passage of Federal legislation to remove restrictions on QVMB funds	1.6.a Participate in strategic teleconferences with 4 other states	F&H Admin.	2/1/2003	On-going		
		1.6.b Pursue contacting members who are not yet cosponsors	F&H Admin.	3/15/2004	4/30/2004		
		1.6.c Hire a lobbyist	F&H Admin.	????	????		
2. Restructure Operations to accommodate a program funded primarily through Unrestricted funds. future.	2.1 Determine appropriate org. structure	2.1.a Study demographics and productivity	Ron Brand	On-going	On-going		
		2.1.b Establish and Monitor cost of Loan servicing and processing	George Flores/Jerry Beaver	8/1/2004	10/31/2004		
		2.1.c Update org. charts	Admin. Support	On-going	On-going		

## ACTION PLAN WORKSHEET

		2.1.d Identify functions that can be outsourced, and determine if feasible	George Flores/Jerry Beaver	6/1/2004	6/30/2005		>Comparison of products, benefits, outreach and services offered >Portfolio increase or decrease by dollar and number
	2.2 Develop staffing model	2.2.a Perform work/task study 2.2.b Develop staffing calculation model	George Flores Admin. Support	7/1/2004 9/30/2004	9/30/2004 12/31/2004		>Dollars loaned, and number of loans funded >Comparison of projected to actual project timelines >Track success of staying within budget
	2.3 Determine Operating Budget	2.3.a Study allocation of F&H/GF positions  2.3.b Develop zero-base methodology & train managers  2.3.c Determine marketing budget 2.3.d Provide monthly budget reports to Unit managers	Admin. Services  George Flores  Marketing Admin. Support	Ongoing  7/1/2004 4/1/2004 1/1/2005	Ongoing  12/31/2004 6/30/2004 On-going	6/15/2004	>Track fund equity >Track costs of loan servicing/processing as percentage of budget
	2.4 Slow the erosion in fund equity by maximizing revenues and reducing costs	2.4.a Use creative econ. Refunding techniques to reduce negative carry 2.4.b Increase interest rates as market rates increase  2.4.c Implement TQM teams in each Unit 2.4.d Invest in new loans 2.4.e Improve the process for purchase money seconds  2.4.f Study concepts of remarketing loans or using a lender network to originate loans	Weijian Ni & cX  Ins. Committee Supervising Property Agents Jerry Beaver  Jerry Beaver  Jerry Beaver	Ongoing  Ongoing 8/1/2004 Ongoing 4/1/2004  8/1/2004	Ongoing  Ongoing 8/30/2004 Ongoing 12/31/2004  6/30/2005		
	2.5 Compare the CV Program to other similar agencies	2.5.a Research similar programs, develop comparison chart, present findings  2.5.b Perform cost study (outsourcing vs. Cal-Vet) 2.5.c Determine methodology to cost-out new loan processing and loan servicing	George Flores  George Flores & Jerry Beaver George Flores & Jerry Beaver	6/1/2004  7/1/2004 8/1/2004	9/30/2004  1/1/2005 9/30/2004		
	2.6 Annually update the F&H Business Plan	2.6.a Assign maintenance of the B/P 2.6.b Continue to define F & H "principles"	Ron Brand  Ron Brand	5/1/2004  5/1/2005	5/5/2004 8/31/2005 of each year		

## ACTION PLAN WORKSHEET

		2.6.c Develop a method to compare "actual" performance to "target" monthly	Ron Brand	5/7/2004	6/30/2004		
3. Improve the processes related to the F & H Loan Program, including the support Units	3.1 Identify key business processes and procedural efficiencies that will reduce costs	3.1.a Establish a process improvement committee 3.1.b Set up an electronic "suggestion box" 3.1.c Map processes  3.1.d RCN project 3.1.e Implement automated loan underwriting	Debra Lehr  Debra Lehr All Managers  Glen Rimbey Jerry Beaver & ISD	7/1/2004  4/1/2004 7/1/2004  8/1/2004 5/1/2004	7/31/2004  5/1/2004 6/30/2005  12/31/2007 1/2/2005	4/9/2004	>Number of processes identified, mapped, changed and the savings resulting from same  >Process timeliness >Number or loans prepaid >Number and type of insurance claims  >Tax penalties paid >Collection/Foreclosure/REO statistics
	3.2 Document processes by priority	3.2.a Establish process review priority through committee	Debra Lehr	8/1/2004	8/31/2004		>Space required and cost of maintaining records >Customer satisfaction, as measured through surveys
	3.3 Develop measurement standards, history and benchmarking	3.3.a Identify reports needed to track metrics  3.3.b Develop reports, including a "target" report	Supervising PA's  SPA's & ISD	8/1/2004  9/1/2004	8/31/2004  9/30/2004		
	3.4 Implement process improvements and develop a monitoring system	3.4.a Update Desk Procedures and Operations Manual  3.4.b Utilize Intranet for Program information	SPA's & Admin. Support  SPA's and ISD	3/1/2004  1/1/2004	6/30/2005  1/1/2005		
	3.5 Complete a CalVet Continuity Plan	3.5.a A Plan is nearing completion. System continuity must still be added.	George Flores	5/1/2004	7/1/2004	6/28/2004	
4. Deliver excellent customer service and improve customer outreach	4.1 Improve customer outreach through implementation of the 2004-05 Marketing Plan	4.1.a Continue to train and partner with M/B's and R/E Agents  4.1.b Develop M/B Manual update schedule & method of communicating changes  4.1.c Attend strategic community & industry events according to a travel plan	Jerry Beaver & Admin. Services  Jerry Beaver & Admin. Services  Ron Brand	Ongoing  7/1/2004  7/1/2004	Ongoing  9/1/2004  6/30/2005		>Number of loans from regionally identified market segments >Survey results  >Number of Mortgage Brokers certified >Number of Real Estate Agents trained  >Number of customer complaints and appeals received >Number of loans originated from the Internet

## ACTION PLAN WORKSHEET

	4.2 Maintain customer and market demographics	4.2.a Assign responsibility for maintenance and reporting	Debra Lehr & George Flores	7/1/2004	7/31/2004		>Number of participants in the EFT program >Comparison of loan terms with those of other lenders
	4.3 Utilize improved methods of measurements & feedback	4.3.a Continue to issue surveys to customers	SPA's	Ongoing	Ongoing		
	4.4 Improve customer access	4.4.a Use technology so customers can access account information	George Flores & Margo Oakes	6/1/2004	1/1/2005		
		4.4.b Enhance EFT features	George Flores & Margo Oakes	7/1/2004	1/1/2005		
		4.4.c Review Field office boundaries and locations	Jerry Beaver	8/1/2004	12/1/2004		
	4.5 Improve competitive position in the marketplace	4.5.a Establish a Customer Focus Committee	George Flores & Ron Brand	8/1/2004	9/1/2004		
		4.5.b Improve secondary loan process	Jerry Beaver	8/1/2004	12/31/2004		
	4.6 Improve employee knowledge and skills	4.6.a Reestablish an Education Committee	George Flores	8/1/2004	9/1/2004		
		4.6.b Investigate use of PTIII class	Debra Lehr	8/1/2004	10/1/2004		
		4.6.c Complete "Deep Class" project	Debra Lehr & HRD	1/1/2004	9/30/2004		
	4.7 Maintain adequate security of customer and account information	4.7.a Update privacy policies and procedures	Ron Brand	8/1/2004	1/1/2005		
		4.7.b Improve quality control	SPA's	Ongoing	Ongoing		
		4.7.c Review MITAS history daily	All Unit Managers	Ongoing	Ongoing		



# Appendix 2-a

## CalVet Interest Rate History

## INTEREST RATE HISTORY FOR CAL-VET LOANS

Authority: Military & Veterans Code of the State of California, Sections 987.17, 987.17a, 987.87, and 987.875

1943 Act (5% ceiling)			
Originally set at	5.00%		
7/1/1945 reduced to	4.00%		
8/1/1946 reduced to	3.00%		
12/1/1957 increased to	3.50%		
2/1/1960 increased to	4.00%		
11/1/1962 reduced to	3.75%		
2/1/1969 increased to	4.25%	Disaster Indemnity program initiated in 1971	
6/1/1974 increased to	4.75%		
5/1/1977 reduced to	4.40%		
1974 Act (no ceiling)			
9/26/1974 set at	6.25%		
5/1/1977 reduced to	5.60%		
9/1/1980 increased to	6.85%		
2/1/1982 increased to	8.00%	Loan Origination Fee originated 9/1983	
3/1/1987 reduced to	7.00%		
3/1/1989 increased to	8.00%		
8/1/1994 reduced to	7.75%		
8/1/1995 increased to	8.00%	Maximum Loan amount increased to \$250,000 1/1/1996	
4/1/1998 reduced to	6.95%	VA Loan Guaranty Program initiated 4/1998	

After January 1, 1999 rates for new loans are established independent of existing loans in the portfolio.

Application period*	QMB	QVMB	UR	
1/1/1999 to 6/31/2000	5.95%	6.65%	6.65%	
7/1/2000 to 2/28/2001	6.95%	7.50%	7.95%	
3/1/2001** to 5/31/2001	6.40%	6.50%	7.95%	
6/1/2001 to 8/31/2001	6.40%	6.50%	7.10%	
9/1/2001 to 4/1/2002	6.00%	6.25%	6.50%	
4/2/2002 to 7/31/2002	5.80%	5.90%	6.50%	
8/1/2002 to 11/25/2002	5.80%	5.50%	6.00%	
11/26/2002 to 6/14/2003	5.25%	4.99%	5.40%	Maximum Loan amount increased to \$322,700 1/1/2003
6/15/2003 to 8/31/2003	4.50%	4.25%	4.50%	
9/1/2003 to 9/15/2003	4.50%	4.25%	4.99%	Maximum Loan amount increased to \$333,700 1/1/2004
9/15/2003 to 5/4/2004	4.50%	4.50%	4.99%	
5/5/2004 to 5/31/2004	4.75%	4.75%	5.25%	
<b>6/1/2004 to Present</b>	<b>5.10%</b>	<b>4.95%</b>	<b>5.50%</b>	

\* All applications received during an interest rate time period receive the rate in effect for the period; however, if the rate is reduced prior to funding, they will receive the new, lower rate.

\*\*Beginning March 1, 2001, interest rates are determined using the rate setting methodology approved by the California Veterans Board and the Veterans Finance Committee.

# Appendix 2-b

## CalVet Programs Offered

## Current Loan Terms, Fees & Rates and Funding Source Restrictions *(Effective 6/1/2004)*

Current Rate	Bond Funds Source	Subject to Income & Purchase Price Limits & Federal Recapture	Wartime Service Required	Loan Programs available for
<b>5.10%</b>	<b>Qualified Mortgage Bonds (Revenue Bonds)</b>	Yes (see CDVA FORM L-10)	No	CalVet / VA CalVet 97 CalVet 80/20
<b>4.95%</b>	<b>Qualified Veterans Mortgage Bonds (General Obligation Bonds)</b> <sup>1</sup>	<b>No</b>	Yes	
<b>5.50%</b>	<b>Unrestricted Funds</b>	<b>No</b>	Yes	

Interest rates and loan terms are subject to change. Contact your local CalVet District Office, check our website at [www.cdva.ca.gov](http://www.cdva.ca.gov), or call 800-952-5626.

## Loan Programs

Loan Program ►	CalVet / VA	CalVet 97	CalVet 80/20
Maximum Loan	\$240,000 (including funding fee)	\$333,700	\$333,700
Property / Program Type	New & Existing Homes (including VA approved Condominiums & PUDs)	New or Existing Homes (including VA approved Condominiums & PUDs) Construction Loans Rehabilitation Loans Mobile Homes on Land Mobile Homes in Parks <sup>1</sup>	New or Existing Homes (including VA approved Condominiums & PUDs) Construction Loans Rehabilitation Loans Mobile Homes on Land Mobile Homes in Parks <sup>1</sup>
Down payment	0%	3%	20%
Funding Fee	1.25% - 3.2% <sup>2</sup> ( <u>may</u> be financed)	1.25 – 2% ( <u>must be paid</u> in escrow) <sup>3</sup>	None
Loan Origination Fee	1%	1%	1%
Other Requirements	VA Certificate of Eligibility for full entitlement		

<sup>1</sup> Mobile Homes in Parks must be funded with QVMB funds. The maximum loan is \$125,000 and the interest rate is 1% higher (5.95%)

<sup>2</sup> The funding fee for CalVet/VA loans is waived for veterans with disability ratings of 10% or higher. The fee is not waived on CalVet97 loans

<sup>3</sup> The funding fee for CalVet 97 loans may be financed when the down payment is 5% or greater.

# Appendix 2-c

## Marketing Budget

## CalVet Home Loans 2004 Marketing Budget

The intention of the CalVet Home Loans marketing effort is to reach every California veteran (particularly those with remaining QVMB eligibility) and make them aware of the home loan benefits for which they are entitled. California is a massive State with 36 million citizens of which 10% are veterans. This goal can only be accomplished through direct marketing to veterans, and the Realtors and mortgage lenders who directly serve the home purchasing needs of California's veterans. This project should be annual, continuous and not sporadic.

<b>Total</b>			<b>393,338</b>
<b>Advertising</b>			<b>100,000</b>
Veterans Newspapers	2000 per month	This will purchase four 1/4 page ads in 24,000 four publications.	
Realtor Magazines	2000 per month	This will purchase a monthly ad in 24,000 Realtor Magazine or ads in local R. E. Board magazines.	
Mortgage Magazines	2000 per month	This will purchase two monthly ads. 24,000	
District Support	2000 per month	This will purchase one ad per district, 24,000 per month.	
Other		Gate maps, base directories, etc. 4,000	
<b>Mail Program</b>			<b>120,000</b>
Data Processing		Clean, update, and merge various data 20,000 lists for more effective mail processing.	
Mail	100000 divided by .50 = 200,000 pieces of mail	There are 102,000 active Realtors and 100,000 over 35,000 active lenders in the state. To reach our industry target market once a year requires 137,000 pieces of mail. This leave 63,000 pieces for direct veteran contact.	
<b>VSO Conventions / Tradeshows</b>			<b>100,000</b>
VSO's	American Legion, VFW, DAV and others	20,000	
CAR	Tradeshows / Expos / Sponsorships	35,000	
CAMB	Tradeshows / Expos / Sponsorships	20,000	
CMBA	Tradeshows / Expos / Sponsorships	15,000	
Other	CBIA, NAR, and other groups benefiting or impacting CalVet.	10,000	
<b>Support / Supplies</b>			<b>62,500</b>
Brochures		25,000	
Advertising Specialty Items		25,000	
Graphic Design Support		10,000	
Equipment		2,500	
<b>Miscellaneous</b>			<b>10,838</b>
<u>Association Dues</u>			
Building Industry Association (BIA)		840	
California Association of Realtors (CAR)		203	
California Association of Mortgage Brokers (CAMB)		3,750	
California Mortgage Bankers Association (CMBA)		850	
American Marketing Association (AMA)		195	
Other: DRE and other non-recurring cost		5,000	

# Appendix 3-a

## Bond Rating History

# Bond Rating Comparison CDVA vs State of California

## General Obligation

	Date	CDVA				State of California		
		Moody's	S&P	Fitch		Moody's	S&P	Fitch
2004	Jun-04		A3	A		A3	BBB	BBB
(2003)	Dec-03		Baa1	A		Baa1	BBB	BBB
(2003)	Aug-03		A3	BBB		A3	BBB	A
(2003)	Feb-03		A2	A		A2	A	A
(2002)	Dec-02		A1	AA-		A1	A	A
BY, BZ (2001)	Dec-01		A1*	AA-*		Aa3	A+	AA
BX (2001)	Jun-01		Aa2*	AA-*		Aa3	A+	AA
BV, BW (2001)	Apr-01		Aa2*	AA-*		Aa3	A+	AA
BJ 11/12, BT, BU (2000)	Dec-00		Aa2	AA		Aa2	AA	AA
BS, BJ 9/10 (2000)	Mar-00		Aa3	AA-		Aa3	AA-	AA
BJ 7/8 (1999)	Nov-99		Aa3*	AA-*		Aa3	AA-	AA-
BJ 3/4, 5/6 (1999)	Apr-99		Aa3	AA-		Aa3	A+	AA-
BQ-BR (1999)	Apr-99		Aa3	AA-		Aa3	A+	AA-
BM-BN, BP (1998)	Mar-98		A1	A+		A1	A+	AA-
BG-BL (1997)	Dec-97		A1**	A+**		A1	A+	AA-
BC-BF (1995)	Mar-95		A1**	A+**		A1	A	A

## Revenue

	Date	CDVA				State of California		
		Moody's	S&P	Fitch		Moody's	S&P	Fitch
2003 Series A	Dec-03		Aa2	A		Aa2	A	AA-
(2003)	Aug-03		Aa2	A		Aa2	A	AA-
(2002)	Dec-02		Aa2	AA-		Aa2	A+	AA-
2002 Series A	Mar-01		Aa2*	AA-*		Aa2	A+	AA
2001 Series A	Apr-01		Aa3*	AA-*		Aa2	A+	AA
1997 Series C (2000)	Dec-00		Aa3	AA-		Aa2	AA	AA
2000 A,B,C	Mar-00		Aa3	AA-		Aa3	AA-	AA
1999 A,B	Mar-99		Aa3	AA-		Aa3	A+	AA-
1998 Series A	Dec-97		Aa3*	A+*		A1	A+	AA-
1997 Series A,B	Dec-97		Aa3	A+		A1	A+	AA-

\*Insured

\*\*Partially Insured

9/21/2004



# Appendix 3-b

Financial Statement & Analysis for  
Years Ended June 30, 2002 & 2003

Addition to  
Appendix 3-b  
Pending